

FINANCIAL TIMES

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THURSDAY FEBRUARY 18 1999

Food politics
Genetically modified
trade wars
Guy de Jonquieres Page 11

Cape Town
Restoring District Six
as a multi-racial model
Page 7

Space enterprise
To boldly go
and make a bundle
Page 18

French banking
Crédit Lyonnais set
to be third big group
Page 14

WORLD NEWS

Chirac in move to sway US policy on exchange rates

French president Jacques Chirac will today try to bridge the wide gap between the US and the euro-zone over exchange rate policy ahead of a meeting of the Group of Seven industrialised countries, Europe, Page 2; Editorial Comment, Page 11

Romanian miners' leader arrested
Romanian police arrested Miron Cozma, militant leader of the country's coal miners, amid violent clashes with thousands of miners, Europe, Page 3

Israel could risk US sanctions
Israel risks sanctions under US trade law unless it enforces legislation to combat pirated music, software and compact discs, US diplomats warned, Page 12

Banana dispute erupts again
The US and the European Union crossed swords over bananas again when Brussels asked for a World Trade Organisation panel to rule on a law that provides for unilateral trade sanctions, World trade, Page 4

Pakistan to begin debt talks
Pakistan is to begin formal talks with commercial bank creditors on rescheduling \$800m in debt, Page 12; Warning for bond investors, Page 6; Capital markets, Page 20

Treaty on Ukraine borders ratified
Russia's federation council, the upper house of parliament, ratified an historic 1997 treaty recognising the territorial sovereignty of neighbouring Ukraine, Europe, Page 3

Indonesia to ban monopolies
Indonesia is to break with some of the worst economic distortions of former president Suharto's rule by banning monopolies, Asia-Pacific, Page 6

EI hopes to resume aid to Moscow
European Union officials hope to be able to eliminate obstacles that have prevented them from sending food aid to Russia at a Moscow summit meeting, Europe, Page 3

Clarifications over Lockerbie trial
Kofi Annan, United Nations secretary-general, is to write to Libya with clarifications about arrangements for the trial of two suspects in the 1988 bombing of a Pan Am airliner over Lockerbie, Scotland, International, Page 7

Poland ratifies Nato entry
Poland ratified the agreement providing for its entry into Nato, clearing the way for its accession to the western alliance, Europe, Page 2

Tashkent on guard after bombs
Soldiers were guarding key buildings in Uzbekistan's capital Tashkent following bomb attacks that killed at least 15 people, International, Page 7

Obasanjo picks running mate
Abacha Abacha, a prominent politician from northern Nigeria, was named as running mate to the former military ruler, Olusegun Obasanjo, in presidential elections, International, Page 7

Sierra Leone fighting sparks exodus
A battle for the town of Kambia in Sierra Leone has triggered an exodus of thousands of civilians from the area, aid workers said.

BUSINESS NEWS

Software AG could raise up to \$560m in big European IPO

Software AG, the German enterprise systems producer, announced details of what is expected to be Europe's largest software industry stock market launch. The IPO, due in the second quarter, is expected to raise at least DM1bn (\$560m). Companies and markets, Page 13

Asda-Scania, Swedish heavy truck manufacturer, reiterated its opposition to a potential takeover from rival Volvo, and unveiled an 18 per cent increase in full-year profits. European companies, Page 15

BP Amoco, recently merged oil group, is to accelerate its integration to try to deliver \$2bn of projected cost savings within 12 months, almost a year earlier than forecast. Companies and markets, Page 13; Lex, Page 12

HJ Heinz, US food company, plans to cut as many as 4,000 jobs from its worldwide workforce of 40,000 over the next four years as part of a wide-ranging restructuring. Companies and markets, Page 13

Danisco Business Systems, troubled photocopy supplier, last night surprised the market with news of a \$236.2m restructuring charge, which pushed third-quarter losses to \$320.8m and will lead to 1,400 job losses. UK companies, Page 17

NEC president Hisashi Kaneko is likely to face pressure to resign at an extraordinary board meeting on Friday when Japan's largest personal computer manufacturer is expected to report huge losses. Companies and markets, Page 13

A Microsoft executive accused rival Netscape Communications of fabricating allegations of an illegal attempt to cause up the software giant's share price. US said Canada, Page 5

AT&T shareholders approved the US long-distance telecommunications group's \$48bn purchase of cable television company Tele-Communications Inc in a move to create a one-stop shop for phone, Internet and cable television. US companies, Page 16

Asian Development Bank and the World Bank are considering guaranteeing an Indonesian debt issue, which would make a costly bank bail-out possible without the country's debt ballooning. Asia-Pacific, Page 6

Starwood Hotels of the US, aims to increase its hotels by 45 per cent to more than 1,000 properties. US companies, Page 16

Deutsche Bank of Germany reported better than expected profits for 1998 and indicated it had recovered from the battering inflicted by the financial turmoil in Asia and Russia. European companies, Page 14

US said Canada, Page 5

Germany set for battle with ECB over rate cut plea

By Tony Barber in Frankfurt, Gerard Baker in Washington, Peter Norman in Brussels and Gillian Tett in Tokyo

Germany and the European Central Bank face a tense confrontation as Oskar Lafontaine, German finance minister, is expected to set out the case for stimulating the euro-zone economy at an ECB meeting today.

Mr Lafontaine contends that Germany, which represents about 35 per cent of the 11-nation euro-zone economy, needs a rate cut or a fiscal stimulus because the financial and economic crises in Asia, Russia and Latin America have damaged German growth and kept unemployment at more than 4m.

His deputy, Heiner Flassbeck, told the European Parliament's monetary affairs committee yesterday that a sharp decline in global growth had sent a shock through Europe that was depressing domestic demand.

But economists believe the ECB's policymaking governing council is likely to resist recent calls from centre-left governments in Germany and France to reduce rates in the euro-zone.

The ECB meeting will set the scene for tough discussions at this weekend's gathering of finance ministers and central bank governors from the Group of Seven industrialised nations about how to stimulate global economic growth.

Robert Rubin, US Treasury secretary, indicated yesterday that the US would use the G7 meeting to urge Europe and Japan to promote domestic demand-led growth.

Economists said the shock to the German economy had been so great that it might even have contracted in the last three months of 1998. The Ifo index of west German business confidence has also fallen for seven successive months, though some economists believe the index for January, to be published tomorrow, will show a modest improvement.

Mr Rubin warned yesterday that the US could not keep the world economy afloat forever.

"The international system cannot sustain indefinitely the large current account imbalances created by the disparities in growth and openness between the US and its major trading partners."

He also said the US would reject calls from European leaders for exchange rate target zones between the main currencies. "If our currency is weak at the time when our economy is weak... we would then be required under that theory... to raise interest rates at the very time that our economy is weak."

In a pointed response to calls by Jacques Chirac, the French president, for greater efforts to stabilise currencies.

In an article in yesterday's Wall Street Journal, Mr Chirac, who begins a two-day visit to the US today, said sustainable growth in the US, Europe and Japan "depends on stability between our currencies".

Meanwhile, Kenichi Sakakibara, Japan's vice-minister of finance for international affairs, admitted it was "natural for the yen to weaken as a result of the very dramatic easing of monetary policy".

The European Commission said the instructions given by the Vienna summit.

Any reprieve for duty free sales would require the unanimous agreement of all 15 EU member states to undo a 1991 decision to end the sales this June.

The Commission announcement also provoked warnings from the duty free lobby that chaos would ensue on ferries and aeroplanes when intra-EU duty free sales are scrapped.

Dawn Primarolo, the UK paymaster general, said the proposed successor regime was to duty free was "fraught with problems".

She added: "We don't believe the commission has taken proper account of these difficulties. We also need to return to this debate with them, which also includes the question of whether or not the regime is abolished at the end of June."

Lobby groups said the successor regime, under which excise rates on alcohol, tobacco and luxury goods will change halfway between two EU countries, was "ludicrous".

But Mario Monti, the single market commissioner, insisted the rules after June were straightforward.

Mr Schröder said the Commission's refusal to extend the life of duty free "conformed in no way" with the instructions given by the Vienna summit.

Mr Schröder said the duty free regime, which allows alcohol and tobacco to be sold free of excise duty inside the EU in airports, ferries and aircraft, should be extended for up to five years to allow the industry to adjust.

He promised to put the issue on the agenda of next month's summit of European Union leaders in Berlin unless the Commission presented acceptable proposals for an extension to finance ministers on March 15.

At their December summit in Vienna, EU heads of government asked the Brussels executive to look again at the regime and to assess the impact of its abolition on employment.

A report by the Commission conceded that some jobs would go. But it said these would be offset by efficiencies generated from scrapping the subsidy implicit in duty free.

Mr Schröder said the Commission's refusal to extend the life of duty free "conformed in no way" with the instructions given by the Vienna summit.



Abdullah Ocalan, Kurdish leader, was flown to Turkey under heavy guard on Monday after his capture in Nairobi. AP

Kurds turn fury on Israel after protesters are killed

Security guards shoot three as Berlin consulate is stormed

By Frederick Stedemann in Berlin and Judy Dempsey in Jerusalem

The focus of Kurdish fury over the arrest of guerrilla leader Abdullah Ocalan switched to Israel yesterday after three protesters were shot dead outside the Israeli consulate in Berlin.

Israeli security guards opened fire as demonstrators attempted to break into the consulate, succeeding briefly in taking one person hostage.

The deaths came as Kurds occupied embassies and political party headquarters across Europe for a second day in response to Monday's capture and return to Turkey for trial of Mr Ocalan, leader of the Kurdistan Workers' Party (PKK).

Gerhard Schröder, German chancellor, warned the country's 500,000 Kurds the authorities would take decisive action against any further acts of violence.

"We cannot tolerate conflicts being carried out on German streets which are not our conflicts," he said.

The protesters had targeted the consulate after reports that Mossad, the Israeli intelligence service, was involved in Mr Ocalan's capture. The German-based Özgür Politika newspaper, close to the rebels, called the capture of Mr Ocalan in Kenya "the product of a CIA-Mossad plot" in its main headline yesterday.

Speaking at an election rally, Benjamin Netanyahu, the Israeli prime minister, insisted Israel had no part in the capture of Mr Ocalan. "We know that there is an attempt to frame us with false accusations on this matter. I want to make clear again today, the State of Israel had no part in Ocalan's capture."

Israel had on Tuesday issued an unusual preemptive denial of its involvement in the Ocalan affair. Government officials said this was necessary because of Israel's close relationship with Turkey. The two countries have co-operated in upgrading Turkey's airforce, in defence contracts, the combat of terrorism and other areas.

Mr Netanyahu also expressed his regrets for the loss of life outside the Berlin consulate, but said the Israeli guards had acted in self defence.

A Berlin police spokesman said "about 56 Kurds tried to enter the building which led to a clash. Several shots were fired."

Two Kurds died immediately while one died later in hospital. Sixteen people were reported wounded and police said further fatalities were possible. More than 100 demonstrators were arrested.

Mr Netanyahu said the consulate in Berlin was attacked by "tens, maybe more people, many holding hammers and clubs."

He said they climbed on to the bars of the building, entered the compound of the embassy and then got through the German guards.

He also confirmed that one Israeli official was taken hostage, but later released.

Israel yesterday closed its embassies across Europe and stepped up security.

Speedy trial pledge, Page 2

WORLD MARKETS

STOCK MARKET INDICES		GOLD	
New York Composite	2951.15	New York Comex	295.9
Dow Jones Ind. Av.	2951.15	London	295.15
NASDAQ Composite	2256.35		
Europe and Far East			
CAC 40	3925.49	DOLLAR	
DAX	4910.09	New York Composite	1.9355
FTSE 100	3924.4	London	1.9355
FTSE Europe 300	1197.51	Paris	0.9992
Nikkei	14158.67	SF	1.4237
US Markets		Y	118.955
US Futures			
Federal Funds	4.75%	London	1.6335
S&P 500 Term 10yr	4.325%	Paris	0.9992
Long Bond	5.35%	SF	1.4237
Yield		Y	118.955
OTHER RATES			
UK 10yr Govt	5.75%	Tokyo Close	118.955
UK 5yr Govt	5.75%	EURO (London)	
Euro Swap	5.000%	£	1.1285
Germany 10yr Bond	4.050%	Y	118.955
Japan 10yr JGB	3.950%	SF	1.4237
NORTH SEA OIL (Argus)	10.00	Y	118.955
Brent Dated	10.00	SF	1.4237

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Futures and Options		Futures and Options	
Oil	21.00	Gold	295.9
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CONTENTS

World News: North America 5	Companies & Finance: 13-17
International 7	Europe 14, The Americas 16,
Asia Pacific 6, Trade 4, UK 8	Asia Pacific 15, International 14,
European News: 2,3	UK 17,
Management/Technology: 18	Capital Markets 20
Comment & Analysis: 10,11	World Stock Markets: 26-32

Full contents and Lex back page

February 1999

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Regulated by IMRO

Romanian miners' leader arrested

By Joe Cook in Bucharest

Romanian police yesterday morning arrested the militant leader of the country's coal miners amid violent clashes with thousands of miners en route to Bucharest.

Miron Cozma, who has led several miners' revolts since 1990 and who once forced a prime minister from office, was sentenced to 15 years in jail on Monday for undermining the state's authority.

Riot police and anti-terrorist units used tear gas and rubber bullets against the miners, some of whom wielded axes while storming police barricades near the village of Stoenești, about 180km west of the capital.

Doctors at the scene said about 200 people, mostly miners, were taken by ambulance to local hospitals.

Mr Cozma, who on Tuesday was warned by the interior ministry that he could be jailed for an additional 15 years for obstructing justice, was arrested by police in Stoenești.

Police also arrested hundreds of other miners and took them away in trucks.

Last month the interior minister was replaced and four police generals left their jobs after a five-day march on Bucharest by an estimated 10,000 miners. This week, however, the authorities would not compromise.

Yesterday morning police reinforcements attacked the miners from behind and



Police finally caught up with Miron Cozma in Stoenești

AP

slashed tyres and punctured petrol tanks to prevent them using their 60 buses and 100 cars to get away.

The Romanian government is in talks with the International Monetary Fund over a new loan accord. It plans to close 140 loss-making coal and other mines to staunch losses in the state sector.

An IMF deal is vital for Romania to avoid default on the \$2.9bn of foreign debt service payments due this year. Official reserves, excluding gold, stood at \$1.9bn at the end of last month.

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Moscow talks seek to clear way for food aid

By Andrew Jack in Moscow

European Union officials hope to be able to eliminate obstacles that have prevented them from sending food aid to Russia during a summit meeting in Moscow today.

Proposals on tighter co-operation and the confidential exchange of information between investigators tracking down those involved in organised crime are also set to be discussed. The one-day EU-Russia summit is being attended by Gerhard Schröder, the chancellor of Germany and holder of the EU presidency.

An EU food aid package of €470m (\$525m), already delayed by concerns over import duties and fears about corruption, received a new setback this month when the Russian authorities complained about the quality of the grain and other products.

Viktor Semyonov, Russia's

agriculture minister, yesterday added to the urgency of a deal by claiming that grain shortages meant the country would need to import 7m tonnes this year to meet its needs.

Discussion on the Russian side is likely to focus on its need for additional financial aid, especially given the presence of Mr Schröder, who chairs a bilateral German-Russian summit immediately after the EU talks. Germany is Russia's largest foreign creditor.

However, Mr Schröder has adopted the line taken by other western leaders in recent months by stressing the need for further economic reform as a pre-condition for additional aid.

But foreign policy experts argued yesterday that few other concrete results were likely to emerge during the meeting, due to last just two hours. Boris Yeltsin, Russia's ailing president, and Yevgeny Primakov, his

prime minister, are expected to attend the meeting with Mr Schröder and Jacques Santer, president of the European Commission.

"I don't think this is something that will set the Moscow river on fire," said Dmitri Trenin, deputy director of the Carnegie Moscow Centre. "It's sad, but Russia's foreign policy has been reduced to a large extent to begging for money. Russia is no longer a pole [of influence]. The question is how to integrate Russia into Europe, and how to strengthen European ties in the perspective of a loss of interest by the US."

EU officials said yesterday the summit would discuss attempts to prepare Russia's entry into the World Trade Organisation and the creation of a free trade area, as well as propositions for a broader EU-Russia common strategy scheduled to be presented to the Council of Ministers in March.

Russia ratifies treaty on Ukraine borders

By Charles Clover in Kiev

Russia's federation council, the upper house of parliament, yesterday ratified an historic 1997 treaty recognising the territorial sovereignty of the neighbouring country of Ukraine.

The step, which includes Russia's first recognition of some of its post-Soviet borders, moves the two countries closer to each other after years in which western countries have courted Ukraine. It is also thought to be linked to greater autonomy for Crimea, the mainly ethnic Russian province of Ukraine.

Greater ties with Russia have been one of the most emotive subjects in Ukrainian politics since independence from the Soviet Union in 1991. But the debate has intensified since a December agreement between Russia and the former Soviet republic of Belarus to unite by the end of this year.

The issue of increased Russian-Ukrainian ties has raised concerns among western diplomats that the sovereignty of Ukraine, one of the biggest recipients of US direct foreign aid, may be eroded.

In January, Oleksander Tkachenko, the speaker of the Ukrainian parliament, called for a vote on joining the Interparliamentary Assembly of the Commonwealth of Independent States, a regular gathering of parliamentarians from most former Soviet Union countries. His comments sparked a bench-clearing brawl between nationalist and Communist deputies.

Mr Tkachenko led a Ukrainian parliamentary delegation to Moscow in December, after which the State Duma, Russia's lower house of parliament, ratified the Ukrainian-Russian treaty.

Many Ukrainian parliamentarians believe Mr Tkachenko effectively traded

Russian ratification of the "Big Treaty" for a number of concessions by Ukraine.

Since Mr Tkachenko's trip, Russia's Communist party, which hopes to rebuild the Soviet Union, has supported the treaty after 1½ years of opposing it.

A week after returning from Moscow, Mr Tkachenko rammed a new constitution for the Crimean peninsula through Ukraine's parliament, without it being submitted to many of the necessary committees.

The constitution granted greater autonomy to Crimea, and gave further powers to Leonid Grach, the Communist speaker of Crimea's parliament. Last month Crimea said it would create its own national anthem, flag and crest.

The Federation Council made the border treaty conditional on an agreement between Ukraine and Russia on the Soviet-era Black sea fleet.

E Europe markets emerge from Russian shadow

Falling bond yields underline convergence with the west, writes Arkady Ostrovsky

Russia's political dominance in eastern Europe ended with the collapse of the Soviet Union in 1991. Any semblance of an economic kind was shattered last August when Russia defaulted on its domestic debt and devalued the ruble.

While Russian dollar-denominated bond yields break new records with spreads reaching 5,391 basis points over US Treasuries, Polish dollar-denominated bond yields - at 237 basis points over US Treasuries - are heading back to the level they were before the Russian crisis, according to J.P. Morgan's emerging markets composite bond index, the main indicator of sovereign bond spreads.

Falling bond yields in central Europe support the view that in the eyes of the capital markets Poland, Hungary and the Czech Republic have de-coupled from Russia and are heading west.

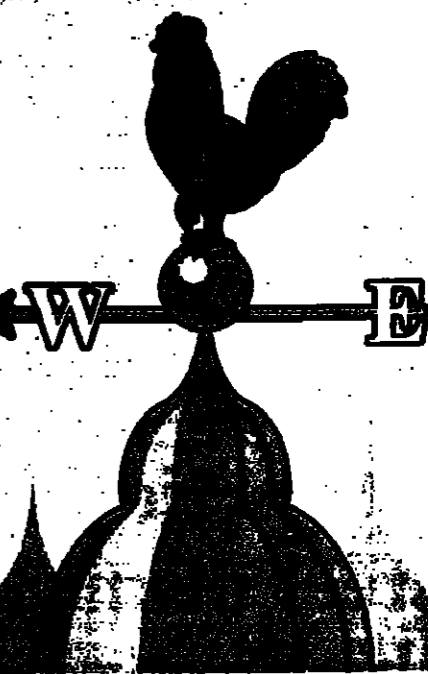
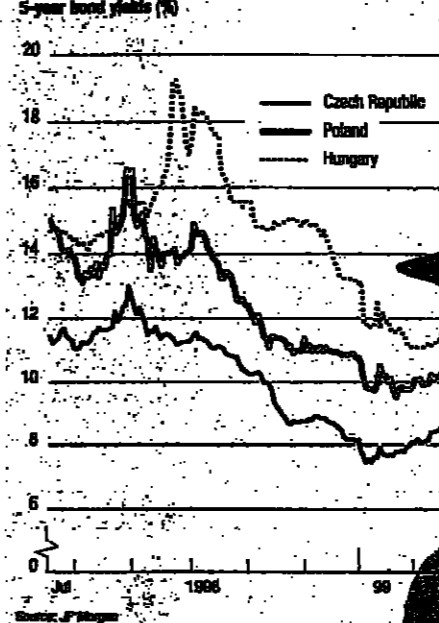
"On the fundamentals basis the market is pricing Poland's risk almost at a pre-Russian crisis level," says Thomas Browne at J.P. Morgan.

Russia has not accounted for more than 10 per cent of central European debt in recent years. After the crisis, trade with Russia ceased almost completely.

"Last August marked a clear break between Russia and central Europe. Eastern Europe is now seen as part of the European mainstream rather than part of the Russian empire," says Anthony Thomas, emerging European economist at Dresdner Kleinwort Benson.

From emergence to convergence

5-year bond yields (%)



indeed, so resilient did the Hungarian government feel that a day after Brazil's financial crisis, Richard Gray, emerging markets economist at Bank of America, says the devaluation of the Real was hardly registered by the eastern European currency markets. In Poland bond yields rose by 20 basis points only and in the Czech Republic yields rose 40 basis points.

The convergence story is best illustrated by falling yields on bonds denominated in local currencies. In the Czech Republic five-year bond yields have steadily fallen from about 12.8 per cent to below 8 per cent since the Russian crisis. Polish five-year bond yields have fallen from more than 16 per cent to 10 per cent in the past five months. Hungarian five-year bond yields have dropped from almost 19 per cent to about 10.5 per cent in the same period.

Government bond yields

are determined by four main factors: interest rates, inflation, risk of devaluation and the credit-worthiness of a country. But while inflation in Poland and Hungary has fallen to single digits and interest rates have dropped dramatically, the risks of currency weakening remain.

"Inflation has come down in eastern Europe faster than expected and the chances of default are extremely low, but it is the currency that is a key variable this year," says Mr Thomas.

However, having escaped from Russia's grip, central European countries are more vulnerable to the fortunes of western Europe, their main trading partner. This means that an economic slowdown in western Europe could hit

export prospects for central European economies and lead to an economic slowdown and the widening of the current account deficit in the region, according to Mr Thomas.

"When western Europe sneezes, eastern Europe catches a cold," says Mr Browne at J.P. Morgan.

But while economies in Poland and Hungary are still growing, albeit at a slower rate than expected, the country that causes most concern to bond investors is the Czech Republic, which is fighting severe recession.

"The Czech currency has been firm, but with the reduction in interest rates the downside for the currency is very severe indeed," says Mr Thomas. "Red lights are already flashing."

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February 18, 1999

WORLD TRADE

BANANA DISPUTE BRUSSELS AND WASHINGTON CLASH AGAIN AT THE WORLD TRADE ORGANISATION

EU seeks WTO ruling on US sanctions law

By Frances Williams in Geneva

The US and the European Union crossed swords over bananas again yesterday when Brussels asked for a World Trade Organisation panel to rule on section 301 of US trade law which provides for unilateral trade sanctions.

Though the US blocked establishment of the panel on the first request, which it is entitled to do under WTO rules, the EU said it would call a special meeting of the WTO's dispute settlement

body to make a second request which cannot be refused.

The meeting is likely to be held at the beginning of March, when the US has threatened to impose punitive duties on European goods in retaliation for the EU's alleged failure to comply with WTO rulings against its banana import regime. Brussels says such sanctions would be illegal in the absence of a WTO panel decision on compliance.

EU officials told the dispute settlement body yesterday that the US sanctions

timetable laid down in section 301 and succeeding clauses, originally enacted in 1974, was not compatible with authorised retaliation procedures in the WTO.

Moreover, the US law had been actively used to exert pressure on Brussels in the banana case, violating WTO prohibitions on unilateral determinations of guilt and unilateral trade measures against WTO members.

Both charges are denied by the US which says any action under section 301 will

be consistent with WTO rules. However, Washington and Brussels do not agree on how the rules should be interpreted, an issue that last month brought the WTO's dispute settlement system close to breakdown.

The three-man panel that originally condemned the EU's banana import arrangements is currently examining the amended scheme which began on January 1 to see if it complies fully with WTO rules. That decision is due by April 12.

The same panel is also

assessing the US claim for \$500m in retaliatory duties on imports from Europe.

Washington argues that WTO procedures require this arbitration to be completed by March 2, permitting it to impose sanctions from March 3 - but Brussels, with the support of other leading trading nations, says retaliation must await the report on compliance.

In recent days the US has hinted that the March 3 deadline laid out in its retaliation timetable may not be immutable, in a further sign

that the two sides are trying to defuse the dispute.

The WTO's dispute settlement body yesterday agreed to establish a panel at the EU's request to examine US anti-subsidy duties against imports of UK steel. Brussels says the duties are based on an unfair US presumption that UK steel companies that took over the assets of state-owned British Steel benefited from subsidies paid before privatisation in 1988.

Editorial comment, Page 11
EW food trade war, Page 11

Jakarta picks port bidder

By Sander Thoenes in Jakarta

Indonesia has selected an affiliate of Hutchison Whampoa, the container port operator, as favoured bidder for operating and managing Jakarta's largest port authority - the first breakthrough in months for the troubled privatisation programme.

The Ministry of State-owned Enterprises said it hoped to conclude negotiations with Grosbeak, part of Hutchison, by the end of February on forming a joint venture with Pelabuhan Indonesia II, the state-owned port authority.

The venture would receive a 20-year concession to operate and manage the two newest and most profitable terminals of the Tanjung Priok harbour, International Container Terminal Services, P&O Ports and a local venture of Stevedoring Services of America International bid as well.

The joint venture is a modified version of earlier privatisation plans, part of a government pledge to raise \$1.5bn by privatising 12 enterprises before April 1. Only a stake in a cement mill has been sold so far and the target for April has been toned down to six sales.

Few expect more than one or two other privatisations by then, leaving Indonesia short of badly needed revenue. The government has been wary of selling majority shares because privatisation has been very controversial in Indonesia.

France Telecom, British Telecom and Telstra of Australia are believed to be doing due diligence before submitting final bids in March for a 14 per cent stake in Indonesia Satellite, the international call operator.

Nederlandse Luchthaven Schiphol, the Dutch airport authority, is believed to be the only interested party in Angkasa Pura II, which manages Jakarta's international airport. Schiphol said it had not even registered to bid.

Australia plans gas drive in Asia

By Gwen Robinson in Sydney

Australian producers of liquefied natural gas are planning to form a joint marketing agency to compete with emerging producers and win LNG contracts in Asia. Australia's largest LNG producer said yesterday.

The move underscored growing competition for Asia's emerging LNG markets - particularly China and Taiwan, which were considering buying significant quantities of LNG from about 2004, said John Akehurst, managing director of Woodside Petroleum. It also highlighted concerns about the prolonged economic downturn in Japan, which is by far Australia's largest LNG customer.

Competition between several Australian LNG projects could work against their interests in securing contracts ahead of competing international LNG suppliers. Mr Akehurst said. "There is the potential for confusion in terms of representation in the market place... The real competition (for Australian producers) is outside the country. It shouldn't be in the country."

Under the plan, competing projects would produce their LNG separately, but pool their marketing efforts in a central agency that would give priority to the lowest cost producers.

Woodside, which is 34 per cent owned by Royal Dutch/Shell, operates and partly owns the North West Shelf gas project off Western Australia. Equal partners in the project are Royal Dutch/Shell, BP-Amoco, Chevron Corp., Broken Hill Proprietary and Japan Australia LNG, a joint venture between Mitsubishi Corp and Mitsui & Co. of Japan.

The proposal for a unified LNG marketing agency was developed by Woodside with Chevron and Shell. But talks are under way with other producers.

FILMS AND TV OTTAWA URGED TO SEEK DEFENCES AGAINST AMERICAN ONSLAUGHT

Canada urged to negotiate ways of protecting cultural heritage

By Edward Alden in Toronto

A top advisory committee to the Canadian trade minister, Sergio Marchi, yesterday urged Canada to take the lead in negotiating new international measures to protect cultural diversity against the mounting pressure for trade liberalisation.

The committee, largely composed of business leaders from the film and television sectors, said the existing cultural exemption negotiated in the North American Free Trade Agreement was no longer sufficient to protect Canadian culture. It urged the negotiation of a new "international instrument," perhaps under the World Trade Organisation, in which countries would agree to treat cultural goods and services as "significantly different from other products."

The recommendations will cause serious concerns in the US administration at a time when the two countries are embroiled in a bitter dispute over proposed Canadian legislation that would freeze some US publishers out of the Canadian market. The US has threatened trade retaliation worth several billion dollars if Canada proceeds with the measure.



Sheila Copps: pointedly excluded US from international meeting to discuss protecting cultural diversity

The US, the world's largest exporter of movies, television programmes and other entertainment products, is worried that Canada and like-minded European countries such as France and Spain will form alliances aimed at excluding US goods. Sheila Copps, Canada's heritage minister, last

year convened an international meeting of cultural ministers, from which the US was pointedly excluded, to discuss strategies for protecting cultural diversity.

Canada and many European countries already use an array of subsidies, local content requirements, ownership restrictions and

import barriers to foster national film, television and print industries. But the US has been chipping away at such measures where possible. Canada last year lost a dispute in the World Trade Organisation after the US challenged its policies to protect local magazine publishers, and Ottawa is now scrambling to find ways to maintain that protection within WTO rules.

The committee's proposal calls for an international agreement that would specify the measures countries are permitted to use to protect their cultural industries, and when those measures are exempt from trade retaliation. The agreement would be based on the principle that cultural diversity should be fostered and that domestic regulatory measures should be used to promote that end.

The committee urged the Canadian government to persuade other countries that trade in cultural goods and services must be treated differently than other products.

The recommendations come as Canada and other countries are drawing up the agenda for the next round of world trade negotiations, which is expected to begin later this year.

US action on steel dismays the Japanese

By Michio Makamoto in Tokyo and agencies

Japanese industry officials have reacted with dismay to anti-dumping action by five US steelmakers, which comes on the heels of a preliminary anti-dumping ruling against Japanese imports of hot-rolled steel products by the Commerce Department.

The US complaint against the Czech Republic, France, India, Indonesia, Italy, Japan, Macedonia and South Korea was filed on Tuesday with the US Commerce Department and US International Trade Commission (ITC).

The industry charged that cut-to-length plate, a major product that is used to make machinery and equipment and in bridge construction, was being sold in US markets by as much as 119 per cent below fair value.

Nippon Steel, the largest Japanese steel manufacturer, said yesterday: "It is not true that steel plate exports are causing damage to US industry and it is hard to understand what is behind the filing of the lawsuit."

Japanese steel manufac-

turers have recently claimed that the rise in steel imports from Japan was due to strong US demand for those products and failure of the US domestic industry to meet that demand due to a supply shortage.

The sharp rise in exports of steel plate products from 5,000 tons in 1997 to 278,000 tons last year was due to the large number of pipeline projects in the US, which in turn resulted from firm energy demand, according to Nippon Steel.

The Japanese Federation of Iron and Steelworkers Unions is planning to send a letter to the United Steelworkers of America, emphasising the sharp drop in imports of Japanese steel since last November. It will convey to the US labour union the impact US anti-dumping action, and a consequent fall in exports to the US, could have on employment in Japan.

The Ministry of International Trade and Industry has already requested consultations with the US on another steel case involving a lawsuit against Japanese steel importers, which Miti considers in breach of WTO rules.

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Netscape's claim untrue - Microsoft

By Richard Wolfe
in Washington

A senior Microsoft executive yesterday accused rival Netscape Communications of fabricating allegations of an illegal attempt to carve up the market in internet software.

Dan Rosen, general manager of new technology, told the Microsoft monopoly trial that it was "absurd and untrue" for Netscape to accuse his company of trying to stifle competition in a meeting between both companies' executives in June 1995. The disputed meeting is one of the most controversial and crucial pieces of evidence in the four-month-old antitrust trial brought by the US Justice Department and 19 states.

Antitrust officials accuse Microsoft of seeking to shift Netscape out of the retail market for internet software, towards products designed for business customers.

In written testimony released yesterday, Mr Rosen, who led the meeting for Microsoft, said: "Based on more than 20 years of business experience and negotiating many strategic agreements, I certainly believed - and still believe - that the discussions with Netscape were wholly and entirely consistent with lawful and commonplace business practices."

Mr Rosen accuses Netscape's senior executives of failing to take accurate or complete notes of the meeting, and of misunderstanding the technical nature of the discussions.

Netscape provided some of the most dramatic evidence at the start of the trial in

October, when Jim Barksdale, Netscape's chief executive, accused Microsoft of wanting to "draw a line" between the two companies. Mr Barksdale said "the line" implied that Microsoft would shift itself towards Netscape's market and undermine its business strategy. When Netscape refused to take part in the alleged collusion, he said Microsoft sought to crush his company by distributing its rival software free of charge.

However, Mr Rosen said yesterday that the discussion of the controversial "line" was no more than a technical debate over the interface between the two companies' products. "It is ludicrous to propose that the 'line' was some sort of line in the sand that Microsoft told Netscape it could cross only at its peril," he said.

Government lawyers yesterday finished three days of cross-examining Brad Chase, Microsoft's vice-president of marketing. Mr Chase has consistently argued that Microsoft's internet software won a significant market share because it was technically superior to its rival's offerings.

The US Justice Department this week sought to undermine those technical claims by releasing internal Microsoft documents which identified that most people use the company's internet software because it was already installed on personal computers.

The government argues that Microsoft has abused its market strength over Windows software to crush competition in the market for internet browsing software.

Argentina looks for ways to mollify suspicious Falklanders

Status of the island still a powerful irritant in relations with Britain, reports Ken Warn

It must have been simple once - an agreeable round of polo, tea, and G&Ts. Britain's ambassador to Buenos Aires in the late 1930s reminded his bosses in London that there was a territorial dispute with Argentina over the Falkland Islands in the South Atlantic. But fortunately, he added, no one had bothered to raise the issue during his tour of duty.

The rise of Argentine nationalism in the 1940s, and then the brief but bloody war that Britain and Argentina fought over the islands in 1982, put paid to such diplomatic tranquillity. Even after the rebuilding of Anglo-Argentine links this decade, the issue remains a powerful irritant in bilateral relations.

Argentina is pressing its 165-year-old claim over the islands with unrelenting vigour. Its officials constantly buttonhole international dignitaries in search of the merest gesture of support - even those who would be hard pressed to locate the Falklands on a map.

The pace of Argentine diplomatic activity has accelerated in recent weeks. Guido Di Tella, foreign minister,

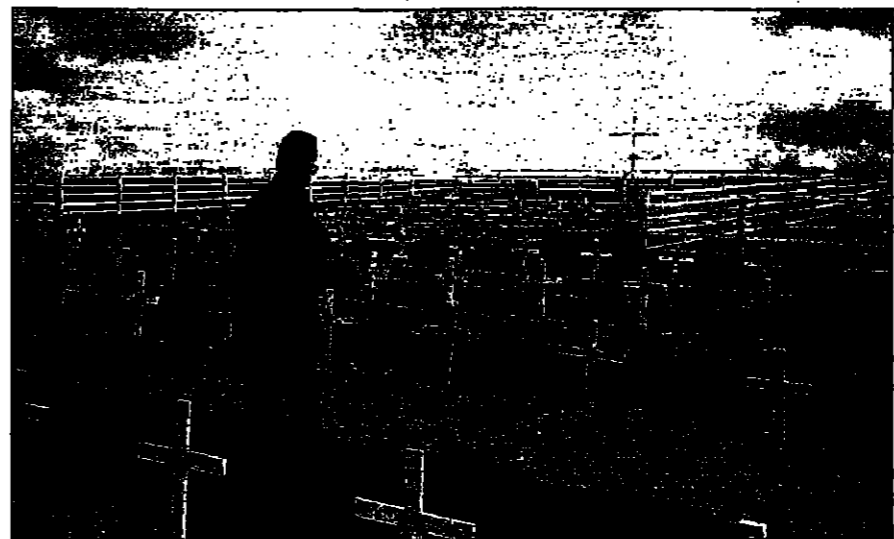
has criss-crossed the Atlantic at a frantic pace, meeting British and US officials and taking the Argentine case to Kofi Annan, the UN secretary general.

Another meeting is planned shortly with Robin Cook, Britain's foreign secretary. "Can this really all be just for the air miles?" said one diplomat in Buenos Aires.

The British government maintains that the sovereignty of the islands is not negotiable. However, it is geared up for an initiative from Buenos Aires soon.

Despite Argentine denials, islanders' representatives say that several "ideas" - none entirely new - have been conveyed to them since December from the Argentine side. These trial balloons range from a freeze on sovereignty to an outright dropping of the Argentine claim, in exchange for a normalisation of links between the islands and the mainland, frozen since 1982.

Under such an arrangement, Argentina would seek at least a symbolic presence on the islands. One formula is that the Argentine flag could be flown over the cemetery at Darwin, where the country's war dead are buried, and the cemetery itself declared sovereign Argentine territory.



A British airman looks across the Argentine cemetery on the Falklands

Reuters

Andrés Cisneros, Argentina's deputy foreign minister, denies there is any possibility of Argentina dropping its claim. But he sketches out a two-stage process under which communications links could be resumed, followed by a negotiation that would lead to "an agreement to disagree" over sovereignty.

The bar on Argentines even setting foot on the Falklands clearly needles Mr Cisneros and other officials. "It's as if we were lepers," he said. "We want the kind of normal relationship that normal people have."

The islanders, not surprisingly, see the situation differently. "Only if the Argentines drop the claim can we have a normal relationship. It is the first step," says Sukey Cameron, Falklands government representative in London.

Taking a marginally more conciliatory line, islands councillor Mike Summers this month suggested a 50-year freeze on the Argentine claim, to be followed by a binding referendum of the islanders on their future, in exchange for a gradual normalisation of links.

But for Argentina, the closer it comes to renouncing the sovereignty claim, the harder any solution will be to sell politically at home. The Falklands barely feature among voters' everyday con-

cerns. But the bedrock of support for pressing the claim remains strong, even among those who opposed Argentina's attempt to seize the islands by force.

For Britain, too, there are dangers. British officials, from Tony Blair, prime minister, downwards, believe resumed links with the mainland would help secure the islands' economic future.

But bitter experience has taught successive British governments not to try to force the pace with the islanders. Before the 1982 conflict, opposition from the Falklanders sank several efforts by London to negotiate with Argentina.

The Argentines see the islanders - who are set to lose their air-link with the mainland next month when LanChile drops its flights - as increasingly isolated, and perhaps more ready to talk than in the past.

But being isolated is something the 2,500-odd Falklanders, who have eked a living from the remote, inhospitable terrain for generations, know all about. Even if Argentina can get round the table with British officials and the islanders' representatives, it may find it is the Falklanders who hold the strongest cards.

Puerto Rico telecoms sale wins approval

By Candis James in Kingston

The US Federal Communications Commission has approved the privatisation of the Puerto Rico Telephone Company to a consortium led by GTE of the US for just over \$2bn.

The sale is the biggest privatisation by the government of the US possession in the north-east Caribbean, and there are more plans for divestment in areas such as prisons and public health.

The GTE-led consortium has taken a 51 per cent stake in Puerto Rico Telephone, and will manage the company. Local investors are buying 5 per cent, while the government is keeping 44 per cent, with some of this going to the company's workers through a stock ownership plan. In approving the sale, the FCC rejected allegations from Puerto Rican trade unions that GTE would abuse its monopoly by not allowing competitors reasonable access to telephone infrastructure, said Gloria Tristani, the FCC commissioner.

Consequently, the commission did not impose a federal monitor as a condition of approving the sale. Ms Tristani said GTE planned to invest \$1bn in infrastructure improvements, had promised not to raise telephone residential rates and would give a 3 per cent discount to Puerto Rican educational

institutions for their use of the internet.

The announcement in July of an agreement in principle between the government and the consortium led to a 48-day strike by three-quarters of Puerto Rico Telephone's employees. They were supported by a two-day general strike.

However, the government rejected opposition to the sale, saying that the company had to be divested because it would become unprofitable following changes in US federal communications regulations. The company lost its 29-year monopoly on local services following the passage of a 1996 law which deregulated telecommunications services in the US. Under government ownership, the company was "bound by too many government procedures and regulations that delayed decision-making in a competitive environment", said Carmen Culpeper, the company president.

With the completion of the sale of the telephone company, the administration will turn to the privatisation of several hotels, regional airports, health clinics and the prison service. It has already sold Puerto Rico Maritime Shipping (Navieras), which had debts of \$600m when it was divested in 1995. Some hotels have also been sold, as well as pineapple farms and sugar cane farms and mills.

New homes building hits 12-year high

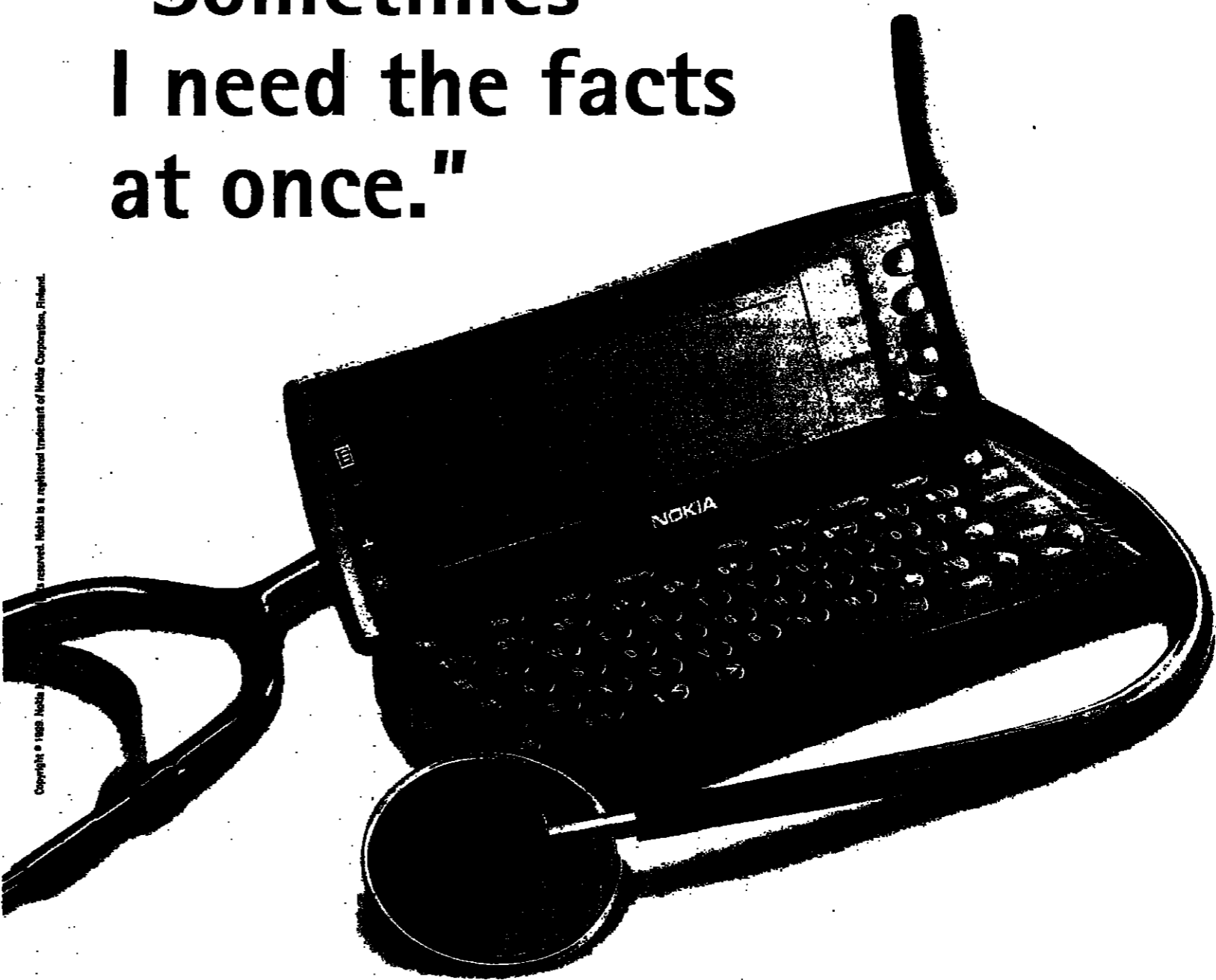
Despite icy weather in the north-east and Midwest, construction of new homes jumped 3.8 per cent in January to a 12-year high, extending the US building boom of 1998 into the new year, AP reports from Washington.

Builders started construction of houses and apartments at a seasonally adjusted annual rate of 1.6m, the Commerce Department said yesterday.

In contrast, the Federal Reserve said production at factories, mines and utilities was unchanged in January.

Builders in 1998 started 1.6m units, an 11-year high, and economists had expected the start of a modest decline during 1999. However, the conditions that drove home sales and construction in 1998 - low mortgage rates, plentiful jobs and high stock prices - continued into 1999.

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ASIA-PACIFIC

BoJ 'ready to pump liquidity into markets'

By Gillian Triff in Tokyo

The Bank of Japan's readiness to take radical measures to boost the economy is now "much, much stronger than the market currently realises," Elise Sakakibara, vice-minister of finance for international affairs, said yesterday.

In particular, the bank now has "a very strong determination to pump liquidity into the markets using all the [monetary]

tools," Mr Sakakibara told the Financial Times. "It is still uncertain at what point the economy will turn around. Given this, the government needs to use every policy tool available to restore confidence and relieve the credit crunch."

Mr Sakakibara refused to endorse explicitly recent calls by politicians for the bank to increase its purchases of Japanese government bonds (JGBs). "It is up to the bank to decide" what

tools, he said.

But his comments will fuel suspicions the government is preparing to implement a more inflationary policy in an effort to stave off criticism it is not doing enough to boost the economy. On Saturday, Japan must face other members of the Group of Seven at a meeting of finance ministers and central bankers in Germany.

Mr Sakakibara admitted that it was "natural for the yen to weaken as a result of

the very dramatic easing of monetary policy."

"I think the US understands this and supports the monetary easing," he said.

He still believed that the yen would recover in the medium term as the Japanese economy rebounded. The yen closed in Tokyo trading around ¥118 to the dollar yesterday, but in London it hit more than ¥119 to the dollar for the first time in two months.

Masaru Hayami, the Bank of Japan governor, has repeatedly insisted in recent weeks that he will not bow to political demands to raise the bank's purchases of Japanese government bonds.

Instead, the bank's policy board decided last Friday to pump enough liquidity into the market to lower the overnight market interest rate from 0.25 per cent to 0.15 per cent or lower. Yesterday, it let the rate fall to a record low of 0.05 per cent.

But other senior bank officials have started intensive discussions about other monetary measures, such as the adoption of an inflation or monetary target for the first time.

Lawrence Summers, US deputy Treasury secretary, is expected to raise the issue with the bank next week. Mr Sakakibara yesterday acknowledged introducing an inflation target "could have a useful psychological impact at the moment."

He admitted that Tuesday's decision by the Trust Fund Bureau to resume JGB purchases "might look like a reversal of policy" but had been needed to "calm panic" in the JGB market in January. The intervention by the bureau was unlikely to push long-term interest rates much lower. Yield on the benchmark 10-year bond yesterday closed at 1.93 per cent, down from Tuesday's 1.99 per cent and sharply below January's 2.94 per cent peak.

Tokyo residents ponder LDP's rival aspirants for governor

Two of Japan's most active figures internationally are fighting each other, reports Michio Nakamoto



Yasuo Akashi, left, and Koji Kakizawa, rivals from LDP

Expertise in international diplomacy is not a skill that wins many votes in Japanese domestic politics. But a messy political battle over who should run for governor of Tokyo from the ruling Liberal Democratic party (LDP) has pitted two of Japan's most active figures on the international stage against one another.

Until recently, Yasuo Akashi, 68, was undersecretary general for humanitarian affairs at the United Nations. Involved in UN peacekeeping activities in Cambodia and the former Yugoslavia.

Koji Kakizawa, 65, is a former foreign minister of Japan who has led a long personal campaign to promote relations with foreign countries ranging from France to Libya.

In a curious twist of fate, the race to become the LDP's candidate in April's Tokyo gubernatorial race has brought the two close friends face to face in a showdown that has wreaked havoc in the ruling party.

It is a huge embarrassment for the LDP, which had settled on fielding Mr Akashi, after an earlier bungle involving an opposition candidate. Initially, the LDP had wanted to back Kunito Hatoyama, deputy secretary general of the opposition Democratic party (DPJ), who is running as an independent.

Mr Hatoyama used to be a member of the LDP and comes from a prominent political family with impeccable conservative credentials. But firm opposition against LDP support from the DPJ scuppered that plan, leaving the ruling party looking confused, disorganised and desperate to find a suitable candidate.

Although the LDP does not face national elections until the autumn of next year, the stakes are high for

the ruling party. The Tokyo gubernatorial election is a key indicator of trends among urban voters, points out John Neuffer, political analyst at Mitsu Marine Research Institute. "Symbolically, it is of crucial importance to the LDP," he says.

The LDP suffered a big defeat in the last gubernatorial election in 1995 when its candidate, Nobuo Ishihara, a former deputy cabinet secretary, lost against Yukio Aoshima, an independent, despite the backing of four other parties.

Young LDP parliamentarians, many of whom are from urban constituencies, are seriously worried about the ruling party's declining support in urban areas.

However, as long as Mr Kakizawa insists on running there is little the LDP can do except to threaten to expel him from the party. Mr Kakizawa is unacceptable as a candidate to the LDP because of opposition from the Komei party, whose cooperation the LDP needs to make up for its lack of a majority in the upper house of the Diet. The Komei, backed by the Soka Gakkai religious organisation, has not forgotten that Mr Kakizawa led a campaign to enforce transparency in accounts of religious organisations, which are tax-exempt.

In the future that has developed over the issue, the plight of Tokyo residents has been left on the sidelines.

The city, with a gross domestic product of \$759.6bn, has an economy larger than that of Canada

or Spain. Its financial problems are also enormous.

With outstanding debts of ¥6.65tn (\$66bn) and a budget deficit of ¥100bn (\$922m) this year, Tokyo faces serious financial problems. Projects undertaken in the years of plenty, such as the redevelopment of the waterfront area, are still costing the city dearly, while revenues have fallen sharply.

The Tokyo metropolitan government's towering headquarters alone, built eight years ago at a cost of ¥160bn, costs the city ¥5.4bn a year in maintenance.

Whoever becomes governor will also face mounting problems related to the recession.

Yet Mr Kakizawa, whose candidacy the LDP adamantly refuses to allow, is the only one who can claim to have taken any concrete action in this regard. As head of an LDP urban revitalisation committee, Mr Kakizawa, known affectionately by his supporters as the "Kennedy" of downtown Tokyo, has been actively studying measures for the city's redevelopment.

Tokyo's liberal voters may be disillusioned with non-establishment types, given the failure of the incumbent governor, Yukio Aoshima, to live up to expectations.

But Tokyoites are notoriously unpredictable - and well educated and well informed. Amid continuing economic slump, the LDP may again find to its dismay that it is still policy, rather than political support, that sways the city's electorate.

ADB, World Bank consider Indonesia debt guarantee

By Sander Thomas in Jakarta

The Asian Development Bank and the World Bank are considering guaranteeing an Indonesian debt issue, which would make a costly bank bailout programme possible without the country's debt ballooning, ADB officials said yesterday.

Shoji Nishimoto, ADB programmes director for east Asia, said the bank's board was considering whether to back sovereign debt issues by troubled Asian member states, including Indonesia.

A decision in principle could be made before April, he said, adding that the World Bank was deliberating

whether to join in.

A joint guarantee for sovereign bond issues by Asian countries would sharply lower the risk attached to such bonds and hence the interest rate needed to attract investors.

For Indonesia, such backing would enable the government to push ahead with its plan to recapitalise up to 70 private and state banks without sharply worsening the budget deficit.

Indonesia set aside Rp34,000bn (\$3.9bn) for the coming fiscal year for interest payments on some Rp250,000bn in government bonds, including Rp18,000bn from the budget and

Rp16,000bn from sales of government assets.

However, this must also pay for liquidation of banks that are not eligible for the recapitalisation plan, because the government guaranteed all bank liabilities a year ago to halt a rush on the banks.

Many economists fear the allocation comes nowhere near the funding needed for recapitalisation, let alone liquidation as well.

The government has delayed decisions on the interest rate and on recapitalisation and closure of unfit banks, despite concern that most banks are sinking under bad loan portfolios

and negative interest spreads. The latest deadline is for February 27.

It is far from clear whether a change of position at the ADB and the World Bank would come in time, or whether they would back a recapitalisation scheme that has been controversial from the start.

Mr Nishimoto said the programme "should be doable" but acknowledged the budget constraints.

He said the ADB had backed a bond issue by the Philippines power utility and a loan to a private Thai bank, but never a sovereign bond. "That is a very sensitive issue," he added.

COMPETITION RULES TRADITION OF AWARDED EXCLUSIVE LICENCES DUE TO DISAPPEAR

New law set to ban monopolies

By Sander Thomas

Indonesia's parliament is set today to ban monopolies and unfair competition, breaking with some of the worst economic distortions of former president Suharto's rule.

Representatives of the four groups in the parliament have already agreed to a draft law that would limit an enterprise to a 50 per cent market share and restrict any group of two or three collaborating companies to 75 per cent.

Vertical integration, a popular practice among Indonesia's conglomerates, would be banned if an independent Commission for Supervision of Competition ruled that it would hinder free competition or "cause loss to the people".

The draft law, the first

ever to be initiated by Indonesia's parliament, would end a long tradition, established by Mr Suharto, of awarding exclusive trade, import and distribution licences to ministers' close friends and relatives.

Mr Suharto agreed to cancel some of the more obvious privileges, such as his son's clove trading monopoly, in an agreement with the International Monetary Fund last year.

The final draft was significantly watered down, however, in part because the World Bank and western governments objected to plans to ban vertical integration altogether and limit market share to 50 per cent, which would have been among the world's toughest limits. Tough prison terms were changed to fines.

Jusuf Talib, one of 34 members of parliament who drafted the law, said the earlier draft "would have made the investors, particularly foreign investors, hesitant to invest".

The law would only come into force after 18 months, to give dominant companies such as Indofood, the vertically integrated noodle maker which holds more than 80 per cent of the market, time to shed businesses.

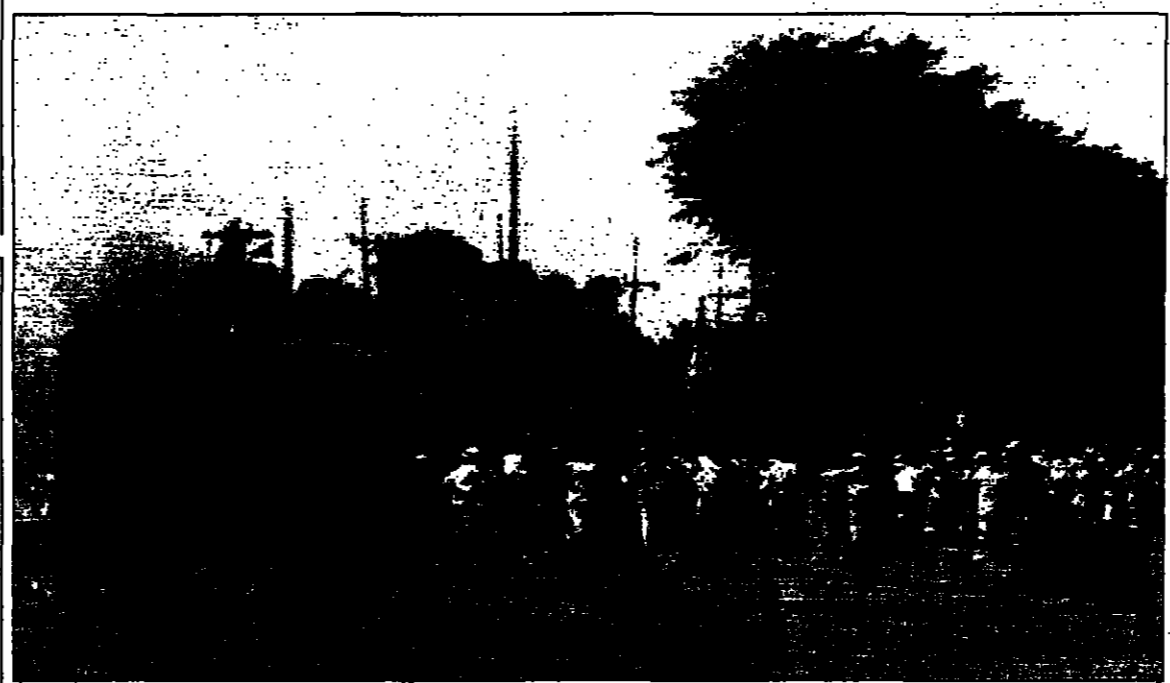
Even at 50-75 per cent, the restriction on market share remained controversial. "Putting such limits is a mistake," said Thee Kian Wie, a prominent economist. "In other countries, anti-monopoly laws do not focus on market share but on company behaviour, such as blocking markets. There is no need to limit market

share as long as businesses can engage in fair competition."

"No matter the percentage, the limitation is a good thing," countered Arif Arryman, a consultant. "In a transitional economy like ours, we need a legal instrument for creating healthy and competitive markets."

Parliament has been unusually productive, adopting laws on banking, political parties and elections. It is deliberating laws on granting independence to the central bank, decentralising government and reforming the oil and gas industry.

Implementation has never been Indonesia's strength, however. "The weakness is not in the law," Mr Talib said. "It is behind the law: the bribes, the corruption. It is a matter of mentality."



Police in Surabaya, Indonesia's second city, use water cannon to disperse thousands of workers protesting over pay yesterday Reuters

Call to guard Taiwan interests

By Mure Dickie in Taipei

Lee Teng-hui, Taiwan's president, has underlined the political gulf between the island and mainland China, with local newspapers quoting him as calling for stronger efforts to safeguard Taiwanese interests.

"Taiwan is Taiwan," newspapers quoted Mr Lee as telling a lunar New Year gathering in his home town. The Liberty Times quoted him as saying it was clear that Taiwan was a sovereign and independent nation.

Such rhetoric raises hackles in Beijing, which considers Taiwan an integral part of China and has threatened to invade if it declares formal independence. Zhu Rongji, the Chinese premier, this week used a New Year address to renew calls for reunification talks.

Mr Lee said the resumption of cross-strait talks should not result in argu-



Lee Teng-hui determined to see that Taiwan stays Taiwan

Military 'cannot try civilians'

By Farhan Bokhari in Islamabad

The Pakistan government yesterday suffered a significant setback in its campaign to quell ethnic violence in Karachi, after the supreme court ruled that military courts could not try civilians.

Nawaz Sharif, prime minister, ordered establishment of the military courts in the southern province of Sindh last November to stem worsening lawlessness caused by continuous fighting among rival ethnic groups. The move was seen as a key measure to restore business confidence in the southern port city of Karachi.

Recently, the government had said that similar courts would be established all over the country to bolster the fight against crime.

Senior officials defended the courts on the grounds that the civil judicial system, notorious for corruption and where trials can sometimes

go on for years, was incapable of delivering "quick" justice. Verdicts from the military courts were subject to only one appeal before a higher military court, and could not be challenged in civilian courts.

Human rights activists had criticised the courts on the grounds that they went against fundamental civil liberties, taking away the right of defence from civilians under trial.

A panel of seven judges ruled that the "military courts" were "unconstitutional, without lawful authority and of no legal effect".

Analysts and businessmen said the ruling would inevitably be seen as one that would weaken the government's hand and increase pressure for new legislation.

Mr Sharif has been criticised for ignoring parliament and running government through executive orders.

Pakistan may be warning for bond investors

By Edward Lucas, Capital Markets Editor

International bond investors have been living a charmed life. But if the Paris Club of creditors succeeds in persuading Pakistan to reschedule its international bond payments, the charm could quickly drain away.

While their counterparts in the syndicated loan markets have been compelled to undergo countless rounds of negotiation to restructure emerging market debt over the last 20 years, bonds have generally been exempt from the process.

The rescheduling of Latin America's syndicated debt liabilities in the 1980s took almost 10 years to complete and caused many a banker to go prematurely grey. Bond holders, however, were let off the hook chiefly because their holdings were minuscule compared with what was owed to the banks.

Since the mid-1990s, all this has changed. Led by the Latin Americans and more recently countries such as Russia, Turkey, Korea and the Philippines, emerging markets have increasingly bypassed the banks and turned to the bond markets as an alternative source of capital. This means that bond investors are highly unlikely to be exempt from future debt rescheduling arrangements.

Many in the bond markets believe that the Paris Club is using its demand that Pakistan reschedule its international bonds as a "dress rehearsal" for an equivalent demand on Russia, which has \$15.4bn of outstanding eurobonds. Under its "comparability" clause, any Paris Club rescheduling must be applied to other creditors.

Unlike loans, which are typically held by syndicates of between five and 50 banks, bonds are distributed to thousands of unrelated investors. If the bond was issued in a bearer rather than a registered form, most of these investors are likely to be anonymous.

To make matters worse, most international bonds have clauses which require the unanimous approval of investors before their terms can be changed. This makes bond restructuring highly vulnerable to litigation.

The International Monetary Fund and most western governments believe that the documentation on international bonds has to be changed to make it easier for sovereign borrowers to restructure their obligations. Though the loan markets are hardly a model of simplicity (or speed), most proposals are designed to make bonds more like loans.

Clifford Dammers, head of the International Primary Market Association - the body representing the international bond markets - says there are three basic proposals. "We can live with some of them but others are not acceptable," he explains. "No government is proposing to legislate any changes, so it is primarily up to the market itself."

The most sweeping proposal is to introduce "sharing" clauses on bonds, which would mean that any proceeds resulting from litigation against the borrower must be distributed equally between all the creditors.

Second, the G22 and the G30 groups of countries have suggested introducing "majority action" clauses in bonds, enabling rescheduling to take place with a majority of, say, 75 per cent of bond holders instead of 100 per cent on most existing international bonds.

Lastly, trustees should be appointed for each separate bond issue to look after the interests of the creditors. "Having a trustee benefits both the borrower and the investor," said Christopher Duffie, managing director of Law Debenture, a trustee.

"From the investor's point of view, you have a professional representative who can negotiate on your behalf and from the borrower's, you can be protected from maverick legal action."

Mr Dammers says the market opposes the sharing clause but would consider the suggestion that trustees should be appointed to sovereign bond issues. "We might look at majority thresholds of 95 per cent but not much lower," he said. But there was little sign that any of the reforms would be adopted soon.

CONTRACTS & TENDERS

GOVERNO DA BAHIA

FEDERATIVE REPUBLIC OF BRAZIL

STATE OF BAHIA

DEPARTMENT OF ADMINISTRATION - SAEB

CENTRAL TENDER COMMITTEE - CCL

CALL FOR TENDERS INTERNATIONAL COMPETITION

Type	No.	Objective	Date	Time	Place	Equity
Compulsive Bidding	001	Fighting Vehicle	March 99	9:30 a.m.	SAEB	R\$50,000.00

All interested parties may obtain further information and/or the Tender Document and its attachments from the Secretaria da Administração do Estado da Bahia Comissão Central de Licitação CCL, at the following address: 2ª avenida, 200, Plataforma III, Térreo SAF Serviço de Atendimento ao Fornecedor Centro Administrativo da Bahia CAB, Salvador, Bahia, Brazil. Tel: (5571) 371-5815, 370-3130, Tel/Fax: (5571) 0119, from 11 February 99 to 14 March 99 from 9:30 a.m. to 5:30 p.m. following payment of R\$30.00 (thirty Brazilian reais) by check, payable to Fundo Rotativo de Material, or through the Internet at www.bahia.ba.gov.br/saeb/saf.htm Salvador, 09 February 1999 EDVALDO FARIAS DE CARVALHO FILHO Acting Chair/CCL

SECRETARIA DA ADMINISTRAÇÃO DO ESTADO DA BAHIA

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South Africa cuts corporate tax rate

By Greta Steyn in Cape Town

Trevor Manuel, the South African finance minister, yesterday announced a surprise cut in the corporate tax rate from 35 per cent to 30 per cent, when he delivered his 1999/2000 budget in parliament.

With a general election due in May and the economy in recession, Mr Manuel was not expected to provide any incentives for the business community.

The tax cut, which drew sharp criticism from the left, was applauded by business people but failed to inspire

the Johannesburg stock exchange which closed slightly lower.

The bond market rallied, however, as Mr Manuel announced a lower borrowing requirement. The finance minister also signalled a change towards a less interventionist industrial policy when he said the government would not renew special tax incentives aimed at encouraging investment in productive capacity when they expire on September 30.

The revenue loss combined with the cut in the company tax rate would

amount to R2.6bn (\$410m) which, although not substantial, was regarded as a confidence-boosting gesture.

Over and above the 30 per cent tax on profits, South African companies have to pay a further 12.5 per cent on dividends distributed to shareholders.

With the election in mind, Mr Manuel announced significant personal income tax cuts for low income earners, most of whom are members of the trade unions which form part of an election alliance with the ruling African National Congress (ANC).

"Lessening the tax burden

on ordinary working people is a key objective of government. They benefit most from the changes we make today, with over half of the relief going to people with incomes of less than R70,000 (\$11,500) a year," Mr Manuel said.

Humphrey Khoza, the president of the South African chamber of business, said business welcomed the reduction in the company tax rate, but regretted the intention not to extend tax concessions.

"This is a positive move... There is no doubt we have to bring the level of tax

down in South Africa," said Leslie Boyd, chairman of Highveld Steel & Vanadium.

Mr Manuel resisted the temptation to buy votes, cutting non-interest expenditure in real terms. When interest is included, overall spending is budgeted to rise about 6 per cent in the 1999/2000 fiscal year, compared with a projected inflation rate of 5.5 per cent.

Mr Manuel announced a special allocation of R1bn for poverty relief and job creation, which would partly go toward community based public works programmes. There was pressure on him

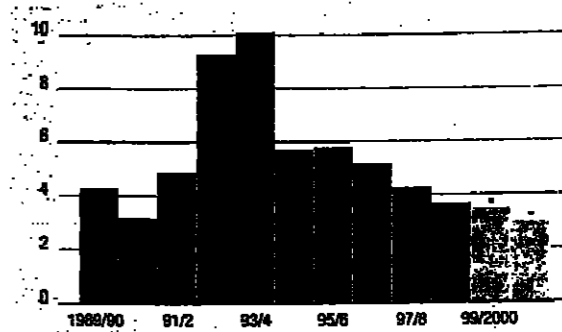
to take some action to alleviate South Africa's unemployment rate, which is estimated at 38 per cent.

"This is not an election budget. But it is a good news budget and it demonstrates policy consistency," Mr Manuel said.

Policy consistency was apparent from further reduction in the budget deficit, which has fallen from a peak of about 10 per cent in the 1993/94 fiscal year, before the ANC came to power, to a budgeted 3.5 per cent in the 1999/2000 year.

Mr Manuel was able to reduce the deficit and give

South Africa: budget deficit
As a percentage of GDP



run in the last fiscal year despite the unexpected economic slowdown. Mr Manuel expects the gains from more efficient collection to continue in the new fiscal year.

Cape Town's dispossessed seek to erase the scars of apartheid

60,000 people lost their homes when the vibrant multiracial District Six was obliterated by the white regime. Victor Mallet reports on an attempt to undo the damage

Noor Ebrahim indicates the spot where he once lived in 247 Caledon Street, next to St Mark's Church, between Table Mountain and the sea. There is nothing to show there was ever a street here, let alone a house. He is pointing at the paved surface of a car park at the new Cape Technikon.

Mr Ebrahim lived in District Six, a name that was to become a symbol of the lunacy of apartheid. In 1966, the government declared this teeming, poverty-ridden, multiracial district at the heart of Cape Town to be a "white area" under the Group Areas Act.

Over the next decade, about 60,000 people - Moslems, Christians, blacks, "coloureds", Jews, merchants, gangsters, teachers, children - were moved and their homes and shops demolished. Only a few mosques and churches were left standing, isolated amid the rubble, spared by a bizarre apartheid ethic that respected religion but persecuted congregations. Much of the wasteland that remained is still an embarrassing scar in the middle of the city.

With apartheid now ended, Mr Ebrahim and other for-

mer residents want to return to District Six and rebuild it with the help of the African National Congress government - and to create an example that might be followed by other dispossessed South African communities.

"We are coming back," says Mr Ebrahim, "Hopefully they will start building again in two or three years."

Mr Ebrahim, whose Indian grandfather married a Scottish woman, watched his

house being bulldozed in 1975. He now works at the District Six museum. "It was a place where people loved and cared for each other and colour didn't matter," he says. "We were a threat to the apartheid government because we proved that living together could work."

Former residents were jubilant when an outline agreement to redevelop the area was signed last September by the District Six Beneficiary Trust, the Department of Land Affairs and the City of Cape Town. All three groups want building plans

finalised by the end of 1999. "The challenge in District Six is to integrate the restitution process with urban development," says Derek Hanekom, the minister responsible for agriculture and land reform. "By the end of this year I feel confident we'll have dealt with the District Six claim."

But land restitution is not proving easy to manage either in District Six or in the rest of the country.

liberals of Cape Town. But the government built the huge Technikon and some whites did buy homes, leaving only about a third of the original area vacant.

The previous government also erased the original grid of town streets by building new roads. And the inhabitants - scattered all over the Cape peninsula, "coloureds" to black and distant suburbs such as Mitchell's Plain, blacks to black townships, Indians to Indian areas and whites to white ones - do not always agree on what should be done.

For all the romanticised memories of the community spirit of District Six, there are inevitably disputes between political factions, religious groups and even between generations of the same family. To make matters still more complicated for the District Six Land Claims Unit trying to process the applications, tenants and sub-tenants are granted almost equal restitution rights under the law as property owners, and many of those owners were absentee landlords.

Of the 2,400 claims, only 30 have so far been investigated and prepared for settlement. Rhoda Kadali, head of the

About 3.5m people were moved from their homes under the Group Areas Act. Out of 83,465 claims lodged nationwide between the ANC's coming to power in 1994 and the deadline at the end of last year, only 81 have so far been settled.

The 2,400 claims received for District Six demonstrate some of the problems. Unlike the equally vibrant Sophiatown area of Johannesburg - which was resettled by whites and renamed Triomf (Triumph) - property in District Six was largely shunned by the embarrassed

unit, reckons it will take another two years to complete the rest. "There are so many anomalies that they become the rule rather than the exception to the rule," she says.

All the protagonists agree that the best way to rebuild District Six is for claimants - except those who will accept financial compensation or alternative land elsewhere - to sign over their rights to a trust, which can

then organise a coherent plan to develop affordable housing. "There is also agreement that the sooner land restitution is carried out, the more likely it is that the government - still firmly committed to righting the wrongs of the apartheid era - will be prepared to pay. "This must come from the national coffers," says Terence Fredericks, one of the leaders of the Beneficiary Trust. "The

longer it drags on the less money will be available."

South Africans are anxious to avoid the experience of Zimbabwe, where race relations since independence in 1980 have been soured by long delays in land reform, shortages of funds and controversial government decrees announcing imminent land seizures from white farmers. Mr Hanekom says he thinks all South African land restitution



A group of youths clear blocks from the rubble of a house bulldozed by the apartheid government in 1980

AP

Obasanjo picks northerner as running mate

By William Wallis in Lagos

Atiku Abubakar, a prominent politician from northern Nigeria and the inheritor of one of the most effective political machines in the country, was named yesterday as running mate to the former military ruler, Olusegun Obasanjo, in presidential elections in 10 day's time.

A former customs chief from the Fulani ethnic group, he originally went into the electoral process at state level, winning the seat of governor in the north-eastern province of Adamawa.

But the role he has played in galvanising support within the People's Democratic Party for Gen Obasanjo's candidacy has propelled him into the front line for the presidential elections.

The February 27 poll is the last stage in a transition to elected rule which should, by May, establish a civilian government in Africa's most populous state for the first time in 15 years.

Unofficially, Mr Atiku inherited leadership of the financially buoyant political network led by the late Gen Musa Yar'Adua, a powerful northern general who was Gen Obasanjo's number two when he ruled between 1976 and 1979.

Gen Yar'Adua's popularity and calls for a swift end to military rule in 1995 led to his detention and later death under the former Abacha regime.

With regional tensions running higher in Nigeria than they have been since the civil war in the 1960s, a presidential candidate from the south must double up with one from the more populous north to stand a chance of winning.

While Mr Atiku will consolidate existing support for Gen Obasanjo in the north, he is unlikely to help him win over doubters in his own region, the south-west. There and elsewhere, there are fears that his presidency would represent little more than a continuation of northern-dominated military rule in a southern civilian guise.

"We think it takes a retired military man to deal with the military," said Mr Atiku recently, warning that other candidates might be unable to control the army during the delicate transition period.

This kind of argument does not wash among Nigeria's second largest ethnic group the Yoruba, in the south-west where the desire for a clean break from corrupt military rule is most pronounced, and where support for the other presidential contender, former finance minister, Chief Olufemi Falae, is strongest.

But disarray and divisions within one of the two parties, the All People's Party, on whose platform Chief Falae is standing, is likely to be a handicap. With only 10 days to go before the elections, there is little time for repairs.



Obasanjo needs northerner to balance ticket

NEWS DIGEST

OIL FOR FOOD PROGRAMME

Iraq oil output at 2m barrels a day

Iraq has pumped oil for export at a rate of more than 2m barrels a day since early December, raising about \$1.2bn in revenues, \$407m of which will go for supplies including food and medicines, the United Nations reported last night. These results were attained despite the oil industry's degraded infrastructure, on which it is now authorised to spend \$300m every six months for improvements. Contracts approved for spare parts and equipment already exceeded \$169m in the current period, the UN observers said. A new contract that they approved was for a Panamanian company's purchase of 1m barrels of Kirkuk crude for export to Europe. The increase in overall sales volume was attributed to "upward adjustments" in several contracts approved earlier. Low oil prices and the poor state of the facilities has prevented Iraq's meeting a six month goal set by the UN of \$5.26bn in sales. The report indicated some relaxation in the oil-for-food programme, with only about 100 contracts now waiting approval. In the past week alone, imports described as humanitarian included combine harvesters, printing materials, electrical spare parts, a heavy crane, lorries, medical books and pesticides. Michael Littlejohns, New York.

LOCKERBIE SUSPECTS

Annan to give clarification

Kofi Annan, United Nations secretary-general, is to write to Libya with clarifications about arrangements for the trial of two suspects in the 1988 bombing of a Pan Am airliner over Lockerbie, Scotland.

At issue is the handing over by Libya for trial before a Scottish court in the Netherlands of two suspects. Libya confirmed over the weekend that it was willing to extradite the two alleged intelligence agents for trial but it first requested certain written assurances.

Mr Annan was expected to tell Libya UN monitors could ensure the suspects - Abdel Basset Ali Mohamed al-Megrahi and Lamen Khalifa Fhimah - would not be interrogated by British or American security services.

If convicted, they would have the right to appeal to a similar Scottish court sitting in the Netherlands and, if they lost their appeal, would have regular access to Libyan consular services while serving their sentence at Barlinnie jail, near Glasgow. Reuters, New York.


UZBEKISTAN BOMBING

Security tightened in Tashkent

Soldiers were guarding key buildings in Uzbekistan's capital Tashkent yesterday following bomb attacks that killed at least 15 people. The emergency ministry said the death toll from Tuesday's explosions, which President Islam Karimov said were an assassination attempt on him, rose to 15 overnight and that more than 130 people had been hurt.

A special task force composed of interior, security, and defence ministry officials had been set up to find out who was responsible for the bombings, an interior ministry official told Reuters. Some government buildings in the city centre were badly damaged and the central Independence Square was still cordoned off by police.

Soldiers guarded entrances to the headquarters of the Council of Ministers, or cabinet, the national bank and other important buildings. Reuters, Tashkent.



FINANCIAL TIMES
Conferences

London Motor

The 15th Annual FT London Motor Conference
14 May 1999, Hotel Inter-Continental, London

The 1999 FT London Motor Conference - the 15th in a highly regarded series - will address the key issues of productivity and competitiveness in the UK motor industry. Expert speakers will consider how the gap is between Britain and its rivals and discuss how vehicle and component manufacturers can achieve greater productivity. New Developments in car retailing and distribution and the impact of grey imports on the new and used car market will also be examined.

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BIMTA (British Independent Motor Traders Association)
- Mr Robert N. Edmondson
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BRITAIN

EXECUTIVE SALARIES GOVERNMENT GIVES COMPANIES A LAST CHANCE TO AVOID EXCESS AND FAILS TO RULE OUT LEGISLATION

Ministers urge shareholder votes on pay

By Jane Martinson, Investment Correspondent

The government would like to see companies choosing to put their remuneration policy to an annual shareholder vote to facilitate accountability and transparency, Stephen Byers, chief industry minister says in a letter to the Financial Times today. Legislation has not been ruled out, he says.

Mr Byers says that companies and shareholders have one last chance to avoid pay excesses. He would "monitor the forthcoming round of annual general meetings closely for evidence of a more positive and responsible approach from companies and shareholders", the letter says.

Mr Byers did not rule out legislation to enforce annual votes on remuneration and re-election of boards. But colleagues said the more likely route was an amendment of stock exchange rules.

Peter Butler, corporate focus director of Hermes, which manages more than £20bn (£45bn) on behalf of the British Telecommunications and Post Office pension funds, yesterday welcomed the idea of voting on pay.

But he warned that annual votes could exacerbate the trend for companies to pay consultants to justify higher salaries. Independent advice in the event of disagreement would be needed to allow shareholders to justify their discontent, he said.

Hermes believes that the existing system on executive pay, in which companies typically outline proposed changes to a handful of shareholders ahead of a vote, was inefficient.

THE ECONOMY

Unemployment figures fall to 18-year low

UK unemployment has fallen to an 18-year low, casting doubt on the belief that labour market pressures have begun to ease. The number of people out of work and claiming benefit dropped by 5,700 in January, from a revised 1,311m to 1,305m. The fall surprised City of London economists, many of whom were expecting an increase. The latest evidence of labour market tightness has made another interest rate cut in March less likely. The government was quick to seize on the strong figures as evidence of policy success. "There are well over 400,000 more people now in jobs than before the election. More people in work in Britain than at any time," said Gordon Brown, chancellor of the exchequer. The government's preferred measure of unemployment, the Labour Force Survey, showed numbers out of work falling slightly in the three months to December, down by 15,000 to 1.79m. Christopher Adams and Robert Chote, London

Biotech groups fear backlash against science

The pharmaceutical sector says there is a danger the GM hysteria could hit medical research. Clive Cookson and David Pilling

Opponents of genetically manipulated crops often seem to direct their anger at the biotechnology industry as a whole. But GM plants and food represent a small proportion of the UK biotech sector, which is dominated by pharmaceutical and diagnostics companies.

Even so, the whole biotech industry feels threatened by what many executives see as an irrational assault on science.

"It has been extremely difficult for the industry to get its message heard at all over the past week," says Aisling Buranda, public affairs director of the Biotechnology Association. "That is a concern to all our members, who are afraid of a knock-on effect on other areas, including the development of life-saving medicines."

John Padfield, chief executive of Chiroscience, a leading UK biopharmaceutical company, agrees. "Using genetically modified organisms to create new crops or food has the same scientific basis as using GMOs to improve human health," he says. "There is a crisis of confidence in the regulatory process, which we do not want to spread into the medical field."

But everyone in the industry applauds the pro-GM stand taken by Tony Blair, the prime minister, and other senior ministers. "I feel that the government does very much understand us and supports our type of business," Mr Padfield explains.

The UK biotech sector includes 460 small and medium-sized companies employing between 35,000 and 40,000 people, according to the BIA. About 6,500 of these work in agriculture and food biotechnology but the number employed directly on GM crops or food is believed to be much lower.

NORTHERN IRELAND PEACE DEAL

Meeting fails to end deadlock

The Northern Ireland peace process remained deadlocked last night after the first direct talks between the Ulster Unionists, the biggest pro-British party in the region, and Sinn Féin, political wing of the Irish Republican Army. Both sides were adamant there was no immediate sign of progress on a handover of weapons by paramilitary groups. Martin McGuinness, Sinn Féin's chief negotiator, told a separate press conference: "You can't get around the table for an hour and a half, almost two hours, with two political parties that have never met one another before and hope to resolve all the difficult issues at the heart of this issue." David Trimble, UUP leader and first minister in the new regional administration, said his party had placed the onus firmly on republicans to deliver on the handover of IRA arms - the one area of the 1998 peace accord which, he said, had not been honoured.

FUND MANAGEMENT

Active managers 'underperform'

Most active retail fund managers have underperformed their passive - or index-tracking - counterparts in the past 10 years, according to research published yesterday. The study of funds worth £35bn (£57bn) by WM, the performance measurement company, found that 75 per cent of active managers, who aim to beat the index by making stock or sector judgments, failed to do so in the UK growth and income sector once fees were taken into account. WM - commissioned by Virgin Direct, which offers index-tracking retail products - chose 149 equity unit trusts in the growth and income sector because it is the market's biggest retail sector. Alistair MacDougall, research director at WM, said: "The average active manager will always underperform the index because it costs more."

POOR NATIONS' DEBT

Ali visit supports campaign

Muhammad Ali brought the streets of the London district of Brixton to a standstill yesterday during a visit to a centre campaigning to cancel Third World Debt. Ron DiNicola, lawyer and agent for the former world heavyweight champion, spoke on Ali's behalf. "It's a terrific honour for him to be in England, a country that he loves and a country he has had a warm, long-standing relationship with. It's an honour for him to be here in support of such a worthy cause as Jubilee 2000." Ali is pictured shaking the hand of a girl who met him after he had laid a wreath at a London monument as part of the debt campaign.

MODERN ART

Important Miró secured for UK

One of the great images of Surrealist art, *Head of a Catalan Peasant* by the Spanish artist Joan Miró, has been acquired by UK institutions. It will be displayed in turn at the new Tate Gallery of Modern Art in London and the Scottish Gallery of Modern Art in Edinburgh. The painting was owned by the late Sir Roland Penrose, the celebrated collector, and was sold by his estate in a private treaty sale that valued the painting at £2.1m (£3.4m). The two galleries each contributed £900,000, with the remainder coming from the National Art Collections Fund. It was the fund's biggest commitment towards acquiring a 20th century work of art. The Miró is the first major painting that the Tate has secured for Banksie, new London gallery to open in May 2000. Antony Thorncroft, London

CROP RESEARCH LIFE SCIENCES GROUP TO OPPOSE UNILATERAL BRITISH ACTION

Monsanto may take case to Brussels

By David Wighton and John Whillman

Monsanto, the US life sciences group at the centre of controversy over genetically modified crops, said yesterday it would resist any attempt to impose a moratorium on the development of GM foods in the UK.

The company, fined £17,000 (£28,000) yesterday for a breach of safety regulations at a test site for genetically modified oilseed rape, said it would challenge unilateral British action in Brussels.

Earlier Michael Meacher, environment minister, said the government was prepared to delay the commercial planting of GM crops in the UK, due to start next year. He said approval would depend on research on the impact of GM crops on the environment.

The opposition Conservative party claimed Mr Meacher's comments were a victory for its campaign for a moratorium. John Redwood, the party's chief industry spokesman, said that if commercial planting was pushed back to spring 2002 it would be "getting very close" to a three-year moratorium. "It is clear they have been shaken by the magnitude of the public reaction," he said.

The government insisted that it had not altered its position and pointed out that a moratorium would prevent the field-scale trials needed to assess the impact on the environment. Mr Meacher's statement followed the publication of a leaked briefing paper from the government's environment department listing concerns raised by various groups about the use of GM crops.

Produced by the department's biotechnology unit, the list included the long-term effects on biodiversity and worries that widespread commercial use could hit certain wildlife species. Mr Meacher denied accusations the paper had been suppressed and said a report addressing the issues raised in it would be published today by his department's Advisory Committee on Releases to the Environment.

Competition warning over tax crackdown

By Jim Kelly in London

The government's crackdown on companies using a legal loophole to avoid paying stamp duty will add costs to British industry and make it less competitive in the global market, according to KPMG, the accountancy firm. Stamp duty is a tax on transfers of shares and securities.

The loophole allows companies to avoid SDRT - levied at 1.5 per cent - on bearer shares denominated in a foreign currency and held in a depository or clearance system. SDRT catches transactions that would otherwise avoid stamp duty.

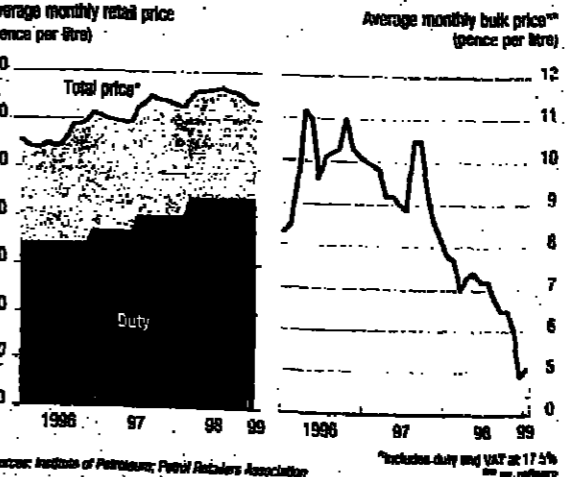
KPMG also warned that the proposed change could break the spirit of EU law in that it discriminates against some companies depending on where they are based in the EU.

"Existing UK law contains an exemption from the charge where a UK company is taken over. Where the target company is foreign it is odd that there should be a charge," said Mr Turnbull. The firm said the government overrode legislation nine years ago to abolish stamp duty on the transfer of shares and securities in preparation for electronic share trading in London. "It is paradoxical that the Revenue is increasing the stamp duty burden whilst there still exists enabling legislation introduced nearly nine years ago to abolish it," it added.

Further consolidation in the industry might be on the agenda and Save is an obvious takeover target. Its market capitalisation has fallen from £185m at the beginning of 1996 to £42m. But even at that price buyers might not be tempted in the current gloomy environment.

Shell and Sainsbury have - so far - decided to go it alone. Tesco, which announced its joint venture in August, insists the link is only on a pilot basis and competition against Esso and others - will remain fierce at existing sites.

UK unleaded petrol prices



Petrol retailing industry braced for internal combustion

Consolidation might be on the agenda as competition, rising duties and low margins make life difficult. Thorold Barker reports

Petrol retailers in the UK have raised pump prices during the past 18 months though the cost of refined petrol has fallen sharply. But margins have remained thin.

The industry has agreed to hand out 15m leaflets on garage forecourts to remind drivers that prices are largely driven by government duties and value added tax. "What people seem to forget is that 85 per cent of the money from a litre of petrol goes to the chancellor. Tax increases alone will keep adding about 4p a year to the price," says

James Frost, chairman of Save Group, the biggest independent operator which runs more than 400 outlets. "That more than offsets any fall in the price of buying petrol from refineries."

Save recently revealed it made no profits in the final quarter of 1998 because of fierce competition from supermarkets and big oil companies.

Pricing has been very competitive since the oil leaders decided to match the supermarkets in 1998. The ensuing price war slowed the supermarkets' rapid gains in market share - they now have about 22 per cent - but is believed to have cost Esso alone up to £200m (£325m) in one year.

"Margins have never recovered," says Mike Harle, Shell UK marketing manager. "They are still well short of offering anything like acceptable returns."

graduate from selling cigarettes and chocolate to running mini-supermarkets - acquire retailing experience. And they both share the profits.

John 201520

COMMENT & ANALYSIS

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

Narrowing the gap

The British government now sees more clearly how it will try to pass the convergence criteria for membership of Emu

Soon after Labour came to office in 1997, the UK Treasury issued a White Paper detailing five economic tests to be met before it would agree to recommend membership of the euro-zone.

Most of these tests were so vague that the government could declare them met at any time it made a political decision to join. The one which has been taken seriously is that of convergence: there has to be a greater conformity between British and European business cycles.

There have been some occasions when British interest rates have had to be higher than those in the European core to hold inflation in check. There have been other periods when British interest rates have had to be lower.

Moreover, there has been a tendency for the British business cycle to be closer to that of the US than to that of continental Europe. The British government has at long last begun to formulate a strategy for reducing these divergences. It believes that the large fluctuations in UK interest rates have reflected the amplitude of the British business cycle, popularly known as "boom and bust".

It hopes that if the UK can maintain reasonably steady non-inflationary growth, there will be no need for such large swings in British interest rates and less cause for divergence with the euro-zone.

There is a second leg of the argument. High short-term interest rates have been particularly harmful to British households because of their effect on mortgage rates. The hope is that declining inflation expectations will further

narrow the gap between British and (say) German 10-year government bond yields, which is already down to half a percentage point. British home borrowers should then be more inclined to switch to fixed-rate mortgages and become less vulnerable to the interest rate cycle.

This convergence strategy is unlikely to provoke gasps of astonishment. But if there is a better one, I have not yet come across it. The top copy of any alternative should be sent, not to me, but to the Rt. Hon Gordon Brown, 11 Downing Street, London SW1A 2AA.

Supporters of UK membership expect that lasting convergence will appear only once euro membership has become a near certainty, as has happened in the 11 members of the euro-zone. Opponents of membership (or, at least, those not concerned just with the metaphysics of sovereignty) will continue to believe that Europe is too large and diverse for a single monetary policy without the backing of other kinds of

political and economic institutions, as seen, for instance, in the US.

My original reason for supporting British euro membership was that this seemed the most feasible method of obtaining a quasi-independent central bank. Once it was achieved in any case in 1997 this tie-breaking argument fell away. The other arguments for and against mostly cancel each other out. One is therefore left to follow one's political instincts, which is what I shall unashamedly do in any referendum on membership of the euro.

Meanwhile, enough can be seen of the behaviour and attitudes of the European Central Bank to make some comparison with those of the monetary policy committee of the Bank of England. Many of the differences are not fundamental. For instance, it is not realistic to expect a multi-national institution to develop an *esprit de corps* if national members are held to account

at home for their votes. And it is difficult to see that the periodic reports of the president of the ECB to the European Parliament are so different from MPC members to the Treasury committee.

In implementing its strategy the ECB uses two sets of assessments, one based on monetary indicators and another an overall economic analysis. The MPC takes account of the monetary and other indicators in a single assessment. The ECB is less explicit about its forecasts; but its bulletin, with detailed analysis of trends, appears every month in contrast to the quarterly Bank of England inflation report.

The Centre for European Policy Studies argues that the ECB is bottom heavy, with too many national governors in relation to the executive board (*Macroeconomic Policy in the First Year of Euroland*, Brussels). Its biggest criticism is of "an ambiguity over who can act as a lender of last resort".

Behind the institutional differences there is a strong similarity of outlook. Both the ECB and MPC have accepted the Milton Friedman doctrine that there is no long-term choice between growth or employment and stable prices. Both would agree that inflation can boost growth only temporarily and is thus counterproductive.

It follows, if they are right, that there is an underlying rate of unemployment consistent with any stable rate of inflation, which is the best that can be achieved by macroeconomic policy, and that further improvements require what is now known as "structural reform" - a cliché to which everyone pays lip-service and hardly anyone follows.

The most dubious aspect of current orthodoxy is the common interest rate that recessionary forces will be reliably signalled by inflation falling below target; and that therefore an inflation target is enough on its own. By contrast, Christopher Dow in his posthumous book, *Major Recession* (Oxford University Press), accepted the idea of an underlying unemployment rate, but did not believe that having an inflation target would be

enough to get us there when actual unemployment was higher.

Despite the basic similarity of outlook with the MPC, the ECB has come in for some over-the-top attacks. One would not think from recent strictures that both nominal and real euro short-term interest rates were 2-3% percentage points below British rates. And although British rates have come down more, this is because they have had much further to fall.

Nor is the euro inflation target more savagely restrictive than the British one. The euro objective of an inflation rate "below 2 per cent" while avoiding deflation, gives a range of zero to 2 per cent. The British target of 2½ per cent appears to be higher; but on the harmonised index of consumer prices (which the ECB uses), it is equivalent to 1.4 per cent. The remaining 0.4 percentage points hardly amounts to a difference of *Wollenschaetzung*.

One possible genuine difference between the ECB and the MPC appears to be the seriousness with which the two institutions take short-term departures from the equilibrium unemployment rate. ECB leaders sometimes speak as if they merely have to go for price stability and they will have done their best for output and jobs. The MPC takes very seriously the transition process and it makes much use of the capacity gap as a guide to whether inflationary pressures are increasing or declining.

But after a year-and-a-half, it is still difficult to be sure how much independent importance even the MPC attaches to supporting the real economy. If inflation forecasts were unchanged between two periods on a common interest rate, that assumption and interest rates were still reduced, this would be *prima facie* evidence that the MPC gave independent weight to output. Such a test case has not yet arisen. Thus there is still no real reason for those of us who would prefer a broader objective, which gave some weight to output when inflation was not a danger, to prefer one model rather than another.

LETTERS TO THE EDITOR

UK approach to open skies is right

From Mr Mike Sparham.

Sir, Your leader on the resumption of "open skies" talks with the US (February 16) demonstrates what a complex industry aviation has become.

It is by no means certain that initially lower fares arising from excess capacity could be sustained at a time when dominant global alliances are being formed that will, in the end, reduce rather than increase competition.

We are fully behind the UK government's approach to the UK-US air service talks, which seeks to ensure that any concessions are evenly balanced and allow greater access for UK carriers into the US market. This requires abolition of their restrictive practices, which your leader did not mention: specifically the "fly America" policy for all US carriers and the aircraft leasing restrictions imposed by the US. Both these practices deny UK carriers a fair access to the US market.

The equalising of rules on foreign ownership is, of course, a two-edged sword. Equalising up to the European Union level of 49 per cent is one thing, the total lifting of restrictions quite another. The most profitable airline companies are all American and the size of their domestic market gives them an advantage that cannot be matched by any European carrier. Until access can be gained to that market through fair and open competition, we do not believe it is in the interests of British consumers, the airline employees or the British economy to make UK-based airlines vulnerable to take-overs by US airlines.

Finally, the issue of slot trading is not as easy as you suggest. Who owns the slots? The airlines did not buy them and do not list them as a financial asset. Why then should they sell them? We cannot ignore the wider impact of trading, with slots going to the highest bidder. As you say, Heathrow is full.

By definition, therefore, an additional slot on a transatlantic route has to come from somebody else - perhaps a regional service or a smaller carrier without the resources to match the bid.

It is important for the regional economies and for the consumer that Heathrow (and Gatwick) do not change into long-haul airports dominated by the big companies. Whatever system of slot distribution is in place it needs to be administered. The last UK government looked seriously at the possibility of slot trading and shied away when it realised it would require three levels of administration and could lead to a tripling of airport charges and a 10 per cent increase in fares. The European Commission is right in its approach.

Mike Sparham, assistant general secretary, British Airline Pilots Association, 81 New Road, Hayes, Middx UB3 3BG, UK

Principles of Greenbury and Hampel apply to pay issue

From Mr Stephen Byers.

Sir, It might be helpful if I clarified the UK government's thinking on boardroom pay.

Our approach is driven, as was that of the Greenbury and Hampel committees, by the principles of accountability, transparency and performance. We have therefore made it clear that we would like to see companies choosing to put their remuneration policy to an annual shareholder vote to facilitate accountability and transparency.

In addition, remuneration committees and shareholders should measure directors' performance against challenging criteria. The government has not

taken a decision to legislate in this area but, equally, we have not ruled out legislation. Before making a decision we will consult with business and institutional shareholders, and will monitor the forthcoming round of annual meetings closely for evidence of a more positive and responsible approach from companies and their shareholders.

This continues the policy established by my predecessors Margaret Beckett and Peter Mandelson.

Stephen Byers, Trade and Industry secretary, DTI, 1 Victoria Street, London SW1H 0ET, UK

City: no need to panic yet

From Mr Paul Wright.

Sir, With reference to the danger of the City of London losing its pre-eminence among European financial centres (February 15), I think we need panic only when French and German governments decide to bring income taxes and employers' charges down to the UK level. In this most highly paid "people business", it would be prohibitive for either companies or individuals to contemplate leaving the City until other governments harmonise downwards their fiscal appetite: there is no sign of that yet.

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The "End of Work" Fallacy.

By Mauricio Rojas.

It's a remarkable epoch we are living in. The creative powers of mankind are greater than ever before. Never have so many people improved their standard of living so radically in such a short time as in the past two decades. But instead of acclaiming this global development breakthrough and seeing its possibilities, more and more people seem to be magnified by all kinds of doom-mongers.

The latest - but also the oldest - prophesy of doom announces the inevitability of a devastating demise of work. The spread of this idea in a Europe shocked by mass unemployment is today assuming alarming proportions, fuelling the rise of different kinds of illiberal political movements. This is why I decided to devote some time to scrutinising the allegations fundamental to the literature on the "end of work".

My conclusion is that this genre rests on four assertions that can be summarised as follows:

- For the first time in history, growth is destroying more jobs than it creates, in a way that, eventually, will exclude the majority of the world's population from the labour market.

- The cause of this development is the technological transformation that set in after the golden age of industrial society and full employment in the 1960s.

- The new jobs that still are being created are low-skilled and low-paid service jobs in economies that, like that of the United States, increasingly consist of "working poor".

- Jobs are disappearing more rapidly in the affluent world because capital and enterprise are migrating to countries where labour is cheap.

This is the basic credo of the end-of-work literature. Now, what is the

A world of ideas on public policy.

substance behind these ideas? Let me briefly review some of the most basic facts in this context.

Entirely contrary to the end-of-work thesis, global job creation during the last 25 years has been extremely high. This holds true for both the developed countries outside Europe and the most densely populated developing nations. In the USA, Canada, Australia and Japan, employment has grown by more than 65 million jobs since 1975, clearly indicating the home-made nature of the job crisis in the highly regulated Western European economies. During the same period a startling expansion of employment has occurred in Asia, successfully absorbing a major part of what is the most dramatic growth of the employable population in world history - amounting to more than half a billion people!

Now, what about technology generating growth in joblessness? If this idea had the slightest connection with reality, the USA and Japan, the two countries which have totally dominated IT development, ought to be especially hard hit by the job problem. But they aren't. And what is more, in both countries, more jobs were created between 1975 and 1995 than in the twenty previous years in spite of a considerable decline in economic growth. This means that the IT period has seen a substantial increase in the job creation effect of growth, which is the opposite to what the end-of-work literature is telling us.

But what about the quality of the new jobs created? The figures about the American labour market tell us a quite different story from the "trash-job-and-working poor" litany that we so often hear. Since 1983, about 50 percent of the new net jobs created in the U.S. economy - more than 15 million

were in the managerial and professional sector, and adding the medium-skilled occupations, the figure rises to over 80 percent. Furthermore, around 70 percent of the new net jobs were in occupations remunerated above the median income for all full-time employees.

Finally, if the idea of a threatening global displacement of capital and enterprise towards cheap labour holds true, the industrialised nations ought to have experienced a dramatic fall in their share of world exports over the

Never have so many improved their standard of living so radically in such a short time as in the past two decades.

past fifteen years or so. But nothing like this has happened. What we instead can observe is an increase of this share!

As we can see, the end-of-work credo has hardly any connection with reality, based as it is upon a series of fallacies. These fallacies, ruthlessly exploiting European mass unemployment and our natural fears in the midst of an epoch-making process of change, are poisoning the minds of too many to be allowed to go unanswered.

Mauricio Rojas (mauricio.rojas@telia.se) is an associate professor of economic history at Lund University, Sweden, and distinguished lecturer at Timbro, a Stockholm-based market liberal think tank (<http://www.timbro.com>). This article is based on his new book, *Millennium Doom*, the first publication of the Stockholm Network, a group of leading European think tanks. To purchase the book, please call or e-mail the Social Market Foundation in London at 44-171-222-7060 or info@smf.co.uk. The Swedish edition is available from Timbro.



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Primakov inter pares

The Russian prime minister's popularity may be at an all-time high but the economic choices he faces are grim, says John Thornhill

The most striking thing about Yevgeny Primakov is that, five months after assuming the premiership in the midst of a desperate economic mess, he should be Russia's most popular politician.

Russia is still reeling from the collapse of the rouble, the default on the government's domestic debt, and a surge in price inflation, but opinion polls suggest the prime minister is being credited with defusing a potentially explosive situation.

The wily former spy-master and foreign minister has pacified parliament and regional governors and tamed the country's financial oligarchs. He has adroitly placed his supporters in important positions, including in the media. The latest poll showed Mr Primakov had overtaken Gennady Zyuganov, the Communist party leader, as the country's most respected political leader.

Yet Mr Primakov must know that his prominence is ephemeral. The economy may no longer be crashing but it is still crumbling. In spite of running a trade surplus of more than \$2bn a month, the central bank's reserves continue to shrink, indicating massive capital flight. Prices have already climbed 10 per cent this year, while the average wage has slipped to less than \$60 a month.

Russia is in arrears on its Soviet-era debt and could be in danger of defaulting on its International Monetary Fund loans. "The government is basically bankrupt. New York City collects more in municipal taxes than Russia collects federal taxes," says Boris Fyodorov, the outgoing former finance minister. "If Primakov does not do something dramatic he will not survive. His fate is sealed."

To emerge from this crisis - rather than just endure it - Mr Primakov might pursue one of two bold strategies. The problem is that both are highly unpalatable to a man accustomed to leading from the middle.

The first would be to follow the IMF's recommendations to cut spending, raise taxes, and run a primary



budget surplus (before interest payments) of more than 3 per cent of gross domestic product this year. Mr Primakov has, in the past, rallied against the "young kids" from the IMF who presume to dictate policy to Russia. But increasingly, he appears to be accepting the logic of their case.

Last weekend, Mr Primakov spelled out in a speech the importance of IMF support. It was not just a matter of hard cash, he said. The Fund's support would also keep Russia within the club

IMF, however, is likely to pitch Mr Primakov against parliament.

Most probably, Mr Primakov would be forced to sack Yuri Masluykov, the former Communist MP in charge of economic policy, and name a more reformist finance minister. Mr Primakov would also have to squeeze more taxes out of companies such as Gazprom, the giant gas monopoly, which is an enthusiastic supporter of the prime minister.

In jeopardising his parliamentary support, Mr

The government is basically bankrupt. New York City collects more in municipal taxes than Russia collects federal taxes'

of financially civilised nations. An IMF deal might prompt western creditors to forgive a large amount of Soviet-era debt and release new funding from the World Bank and Japan. It could also lead to a strengthening of the rouble, a revaluation of Russian asset prices, and greater foreign direct investment.

Of course, at the end of the day we can manage, but it will be extremely difficult for us to manage without this support," Mr Primakov said.

Striking a deal with the

For that reason, some of

Mr Primakov's informal advisers are urging the prime minister to address Russia's political conundrum before he tackles its economic problems. Sergei Karaganov, chairman of the Council on Foreign and Defence Policy, a think-tank, argues that Mr Yeltsin's voluntary resignation is now essential. Only a new president with a popular mandate has any chance of conducting successful economic reforms.

"Previous reforms failed not because of wrong economic policies but because the reformers and their supporters in the west had so weakened the credibility of the government," he says. "It was not a liberal but a libertarian approach. Liberal reforms can be introduced only by a very strong government."

Mr Primakov has loudly dissociated himself from such thinking, saying Mr Yeltsin must remain president until his term expires in the summer of 2000.

Yet some observers wonder whether Mr Primakov is not steering himself for a showdown with the president. Mr Primakov's current talks with political leaders about a "stability pact" in the run-up to December's parliamentary elections provide a perfect cloak for him to hatch his plots.

Temperamentally, Mr Yeltsin seems unlikely to cede power voluntarily as Mr Primakov is to grab it by force. The uneasy truce between the two leaders may continue for months. The default option in Russian politics is always to muddle through, which invariably results in muddle-down.

Mr Primakov may yet conclude that doing nothing is the better than doing something. But the logic of the situation is rapidly pressing in on him.

It always used to be said that Russia faced a choice of successful Polish-style reform and 1970s-style Latin American inflation. Now the choice seems to be getting more alarming. "It is clear that for Primakov time is running out," says Mr Fyodorov. "Either we go in the same direction as the rest of the world or we follow North Korea into total isolation."

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Meeting global responsibilities

The most pressing issue facing the Group of Seven meeting in Bonn at the weekend is the health of the European economy. The other items on the agenda of the G7 finance ministers and central bankers, though important, are less urgent.

The Europeans are keen to address reform of the "international financial architecture". The US will rightly pour cold water on any grand plans. However, the meeting will miss an opportunity if it fails to agree to support reform of the international financial architecture. Another issue where progress could and should be made is debt-relief for poor countries, on which a firm commitment is overdue.

There will be little to be said on any proposals for exchange rate target zones: the US has made it clear it is not interested. As at past meetings, there will be strong words on the need for Japanese policymakers to boost their dangerously flagging economy. This discussion, alas, will be little more than a formality.

Europe's economy, therefore, becomes the focus. This is the first meeting attended by representatives of the European Central Bank vested with full monetary authority for the euro-zone. The ECB's monthly bulletin, published this week, makes clear that it sees no room for lower interest rates - even though the

euro-zone economy is measurably weakening while inflation is falling.

Wim Duisenberg, president of the ECB, may find it easy to dismiss the protestations of European finance ministers on his own turf. He will find it difficult to focus on price stability, to the exclusion of all else, at a meeting with all the G7 finance ministers and central bankers.

Politics, as well as economics, dictates that the US press its complaint that - at a time when most of the developing world, along with Japan, is in recession - the euro-zone is running a growing current account surplus. This leaves the US to absorb the export of crisis-stricken economies. In effect, it means that the health of the world economy, as well as US prosperity, relies on a continued boom in the US stock market.

After Alan Greenspan, chairman of the US Federal Reserve, Mr Duisenberg is the world's most important central banker. It is time for him to demonstrate his understanding of the international responsibilities that accompany this role, by giving public recognition to the need to support European growth. European finance ministers should reciprocate with a serious commitment to deregulation.

Last September, the G7 pledged to support growth. A communiqué which commits all members to take practical steps to achieve this is essential.

Rich men's rules

The European Union likes to pose as an enlightened aid donor and champion of developing economies' interests. It also regularly holds itself up as a model of the virtues of universal justice and the primacy of the rule of law. But the European Commission is making a mockery of both claims by obstinately resisting a modest proposal to help the world's poorest countries gain a fair hearing in trade disputes.

The proposal calls for the creation of a legal aid centre, which would advise needy nations on World Trade Organisation law and help them with the costs of litigating cases before WTO dispute panels. Many developing countries, which constitute the majority of WTO members, lack the expertise and resources to challenge other governments' trade policies and defend themselves against complaints.

The WTO's dispute procedures are one of its greatest successes and the bedrock of its authority. By impartially adjudicating disputes and ensuring that rulings are enforced, they are a powerful instrument for keeping markets open and holding members to their commitments. Equity and the integrity of the world trade system demand that all members should have access to them.

Yet the Commission seems blind to such arguments. Against the wishes of the Netherlands and several other EU members, it

is fighting the proposed legal aid centre. Instead, it wants the WTO's secretariat to do the job. But as the US has pointed out, that would gravely compromise the secretariat's impartiality. Brussels' ploy looks suspiciously like a sabotage mission.

The Commission's hard line partly reflects its determination to assert its institutional authority over member states in matters of EU trade policy. So dogged is its insistence that it is said to be ready to sue EU members if they contribute funds to the proposed aid centre. The Commission claims that if they did so, they would weaken co-operation in the common EU interest. And what might that be? In this case, the answer seems depressingly clear: sheltering the Common Agricultural Policy and other sacred EU protectionist cows from judicial challenges, by denying many WTO members the means to contest them.

This incident may seem relatively minor. But what is important is the political signals it sends. Brussels needs to be clear what they are. Its attitude not only looks mean-spirited; it suggests the EU believes in one law for the rich and another for the poor. That principle has no place in a civilised society. The Commission should acknowledge as much by dropping its ill-considered opposition in the WTO to a fair and sensible proposal.

Chirac in DC

When Jacques Chirac, the French president, arrives in Washington today, he will find he is walking into the lion's den. Politicians and the media in Washington tend to see France as a perpetual irritant in international relations, seeking out contrary positions to the US whenever possible. Whether it be French opposition to liberalising farm trade, hostility to the hegemony of the dollar, or scepticism - to say the very least - about US policy towards Iraq, it all seems tiresome troublemaking.

The same sort of demonisation, this time of the US, too often holds true in France. The nation's media, and the media in Washington, are playing to packed cinemas in Paris, in spite of being savaged by the critics. Robert Vézina, the French foreign minister, has characterised the US as the world's first "hyperpower", raising fears that it is pursuing a unilateralist agenda without regard to the concerns of others.

Such caricatures are obviously exaggerated, and they do little to help each side understand the other. That nations, because France is, for the moment, potentially the most important interlocutor for Washington with oppositional Europe and the emerging euro-zone. The new German government has yet to resolve its own internal differ-

ences and present a clear position on either international financial or foreign policies. The British government is not part of the euro-zone and, anyway, is naturally inclined to suppress any doubts in the interests of Anglo-Saxon solidarity.

If the US has trouble understanding French politics, that is partly a result of the complexities in Paris, where the conservative Mr Chirac is in uneasy cohabitation with a Socialist prime minister, Lionel Jospin. Most questions of foreign policy are seen in monolithic terms in France, so it is very difficult for either man to be seen to go too far in cosyng up to President Clinton.

Nevertheless, Mr Chirac hopes to play a helpful role of mediator between Washington and the euro-zone, both on the disputed question of exchange rate policy and on the reform of the international financial architecture. He will no doubt be greeted by US criticism that the European economies are not playing their part in maintaining growth and absorbing imports from the rest of the world.

There are hopeful signs that both sides are more willing to listen to each other than the caricatures would suggest, thanks in part to their co-operation in seeking peace in Kosovo. Mr Chirac deserves a hearing. But he must show he is ready to listen to Mr Clinton, too.

Genetically modified trade wars

Widespread worries in Europe about genetically altered crops could result in a transatlantic trade war and even the worldwide marginalisation of European farming, says Guy de Jonquières

International disagreements over agricultural trade used to be all about countries' efforts to protect inefficient farmers from foreign competition. No longer. Consumers, not producers, are in the forefront of the growing campaign in Europe against genetically modified foods. Their concerns are not to do with cold economics, but with the health and environmental risks of using science to change nature.

Across Europe, there is a chorus of demands for a ban - or at least a moratorium - both on planting genetically altered crops in Europe and on the sale of imported foods containing them. The backlash is causing consternation in the US, the world's biggest producer and exporter of such products. If Europe closed its markets to this \$1.5bn a year trade, it could trigger a conflict that would dwarf existing transatlantic differences about farm trade.

The US is increasingly irked by the European Union's readiness to bow to public anxieties about food safety by outlawing products without showing they are unsafe, as World Trade Organisation rules require. The WTO has already condemned the EU's 12-year ban on hormone-treated beef for that reason and Washington is threatening retaliation if Brussels disregards the ruling.

But the commercial interests at stake in the genetic revolution are far greater than in the case of beef - and the policy issues they raise are much more complex. So far, most of the trade problems associated with GM foods have been between the US and the EU. But they will soon become global, says Professor Tim Josling, an agricultural economist at California's Stanford University.

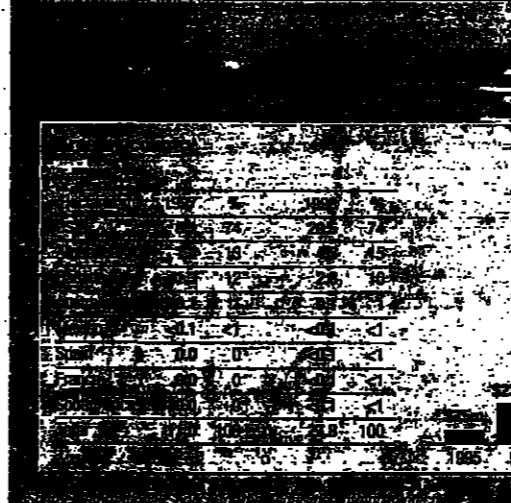
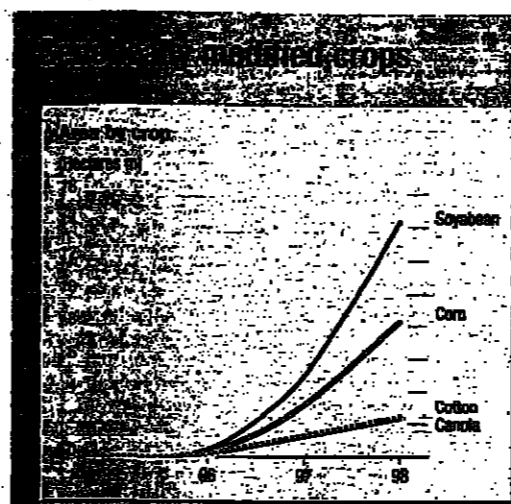
While European consumers are turning their backs on food made from genetically modified crops, the high productivity of these crops is causing increasing numbers of farmers to turn to them, not just in the US, but in most big farm-exporting countries, including Argentina, Australia, Brazil, Canada, Mexico and China. Land area under cultivation and the market value of output worldwide almost tripled last year (see chart).

But the trend faces growing opposition, and not only in Europe. Many poor countries favour controls on international trade in genetically modified crops - even though they have previously opposed the use of trade measures to enforce environmental standards. They want a global agreement, being negotiated in Colombia this week, to allow governments to block imports of genetically modified products unless they consent in advance to allow the shipments.

Some agricultural trade experts believe that, in practice, such export controls would rarely be given. They could result in much of the world being declared off-limits to genetically altered crops and food - in direct conflict with WTO rules.

That prospect alarms the US and other large farm exporters. The EU's apparent willingness to go along with at least some of the poor countries' demands has added to Washington's frustration and reinforced its determination to overcome Europe's reluctance to accept genetically modified foods.

The US initially blamed European resistance on straightforward protectionism. But recent



ward protectionism. But recent levels of anxiety in Europe about food safety, particularly since the outbreak of "mad cow" disease, has forced US officials to recognise that the explanation is more complex.

They now accept that the fundamental issue is one of public confidence. Europeans say the same thing. But the two sides completely disagree about where the problem lies. Many European commentators think it is to do with lack of scientific certainty about the effects of genetically modified foods; without that, they say, consumers will refuse to accept they are safe.

Yet the few genetically modified products so far approved for sale in Europe have undergone extensive scientific review. As well as being cleared by the notoriously finicky US Food and Drug Administration (FDA) and other federal agencies, each has been evaluated by numerous scientific committees in Europe.

US officials, on the other hand, insist the problem is lack of confidence in government, not in science. They blame public mistrust of genetically modified and other novel foods on the EU's arcane system for regulating food safety, saying it encourages decisions based on political opportunism and scaremongering, not scientific evidence.

"The US and many other countries have much stronger and more independent regulatory systems than the EU. They are not driven by emotion, politics and the whims of princes or kings, but by genuine health concerns," says Peter Seher, the senior US farm trade negotiator.

Even EU officials share US misgivings about the system, in which requests for product approvals are trundled through a labyrinth of committees in member states, the European Commission and the Council of Ministers.

They say the procedures not only lead to long delays but undermine public accountability.

"The system seems almost designed to allow politicians to shirk difficult decisions and score cheap points by playing to popular fears about GM foods," says one European diplomat. That, he says, whips up more public resistance, which ministers then use to justify further delay and indecision.

In practice, the buck usually stops with the European Commission, which has to decide on product approvals when member states cannot agree. It faces an unenviable dilemma. If it vetoes products, without clear scientific evidence that they are unsafe, it

'Most of the trade problems have been between the US and the EU. But they will soon become global'

risks violating WTO rules. But if it approves them, it risks inciting rebellion from its member states and a popular backlash.

Austria, Luxembourg and France have recently blocked the sale of genetically modified crops approved by Brussels. The Commission is preparing legal action against France. But it fears that cracking the whip too hard could lead member states to ignore it and press ahead with bans on such products, causing the EU's single market to disintegrate.

An EU-wide ban, whether instituted or not by Brussels, would almost certainly be challenged by the US in the WTO. President Bill Clinton's administration is under growing pressure from the powerful US farm lobby to step up

attacks on barriers to its exports, to offset the impact of falling commodity prices and shrinking Asian markets.

Nonetheless, trade policymakers in Brussels and Washington are anxious to prevent another conflict, when they are already locked in disputes over bananas and beef. These have already placed severe strains on the WTO and threaten US and EU hopes of co-operating on the launch of a new trade liberalisation round.

But can a way out of the impasse be found? The US says the solution is for the EU to entrust food regulation to an independent authority with the powers and stature of the FDA - as it has already done for pharmaceuticals. But many European observers reckon that, even if EU governments agreed to create such a body, it might not find it any easier than the Commission to impose decisions on them and on sceptical consumers.

So another option is mandatory labelling of genetically modified foods in shops. Such schemes have long been opposed on principle by EU farm ministers and the US, which fears they would discriminate against its exports. Nonetheless, Washington has recently warmed to the idea as a way of settling its dispute with the EU over hormone-treated beef.

But devising a labelling scheme for such foods would be complex, involving difficult decisions about which products should be covered and what labels should say. A further problem is that almost all mainstream US crops will probably be genetically modified in 10 years' time, or mixed with products that are. That could mean most US food exports would have to carry labels, which nervous European consumers might take as a health warning.

A third possibility is that the European public will overcome its reservations about genetically modified foods. That may seem a long shot. Few EU politicians are prepared to speak up for them, and an advertising campaign by Monsanto, the US biotechnology company, intended to reassure Europeans about genetic food science, backfired disastrously.

Nonetheless, some observers think the attitude of European farmers will prove decisive. "So far, they have stayed out of the debate," says an EU agriculture official. "One explanation is that they have less incentive than US farmers to improve efficiency, because they are so heavily subsidised. Another is that GM technologies have so far been applied mainly to crops such as soya, maize and cotton, of which Europe is not a big producer."

However, he says that EU farm spending faces a remorseless squeeze, while genetic technologies designed for mainstream European crops, such as wheat and sugar beet, will soon come on stream. "At some point, these developments should cause European farmers to start lobbying for GM products out of commercial self-interest," he says.

When, if ever, that point will be reached is highly uncertain. But if public and political demands for a European ban on genetically modified foods become irresistible, two outcomes will be increasingly likely. One is that the EU's trade relations with the US and other big agricultural exporters would be subject to growing strife.

The other is that rejection of scientific advances would consign European agriculture to a backwater. "There is a risk that a sizeable gap would open up with modern farming technologies in use in the US and elsewhere," says Prof Josling. "I am not sure Europe is prepared for that."

OBSERVER

Marching on the Reichstag

The deployment of German troops used to be one of the thorniest issues in European politics. But these days, such export would rarely be given. They could result in much of the world being declared off-limits to genetically altered crops and food - in direct conflict with WTO rules.

The soldiers will be in the Reichstag debating chamber to do their bit for democracy. The clutch-in is to test the building's acoustics, just in case its distinctive glass canopy amplifies the whispers of parliamentarians down below - raising the prospect of chaotic debates and, even worse, allowing the private asides of MPs to waft up to unsuspecting visitors peering down from the observation deck.

Sir Norman Foster, the British architect who oversaw the renovation of the building, opted for a glass-heavy design aimed at bringing greater transparency to the inner workings of democracy. Nice idea, but too much transparency could be too much of a good thing.

Blue bottoms

Stone-washed jeans are not the fashion statement they used to

be - and it's beginning to give Novo Nordisk the blues.

Apart from being a global leader in insulin production, the Danish-based company is the world's largest producer of industrial enzyme products - it markets around 600 of them to manufacturers of everything from detergents to beer. As for jeans, it's an enzyme that gives them that casual, washed-out look - it is called "bio-stoning" - before they leave the factory.

But while higher global demand for insulin helped Novo record impressive earnings growth in 1998, the fashionable preference for black and more black when it comes to jeans means the bottom's dropped out of enzyme sales. Not to mention the jeans.

US of Acrimony

It's supposed to be a friendly get-together. But Saturday's gathering of the Group of Seven finance ministers near Bonn has been creating trouble between the US and its European partners for some time.

German finance minister Oskar Lafontaine, who's also hosting the meeting, has alienated the European Commission by trying to appease Uncle Sam. The Americans objected to the European Union's mind-bogglingly complex proposals to have the 11-nation euro-zone represented at the meeting.

Needed by US complaints that the G7 "club" would be packed with a host of unfamiliar faces, Mr Lafontaine decided to limit the euro 11 delegation to Wim Duisenberg, the president of the European Central Bank, and marginalise the Commission. Instead of allowing it into the talks as part of an EU delegation, Lafontaine has said its representative must be included in the German team and will not be allowed into the ministerial pow-wow.

Yves-Thibault de Silguy, the commissioner responsible for monetary affairs, is hopping mad, and sounding off about the Lafontaine wheeze to all and sundry. It neither complies with arrangements solemnly endorsed by EU leaders at their Vienna summit in December nor ensures that the euro countries will be properly represented at the meeting, he harrumphed.

Observer reckons it's a safe bet de Silguy won't be the only one complaining. Wait now for the smaller euro 11 nations to round on Oskar.

Holy Poles

Poland's prayers have been answered! The country's soon to fulfil its ambition to become a Nato member, as president Aleksander Kwasniewski is only too keen to point out. If anyone doubts the Poles are ready to join the alliance, Kwasniewski brandishes a prayer book.

But that's not as strange as it might sound. The little green booklet has been published in both English and Polish by Archbishop Sławoj Głódz, chief Catholic chaplain to the armed forces. Designed for the Polish armed forces, it's supposed to come in handy for church services with other catholic countries in the alliance - Italy or France for example.

With Poland poised to become a fully fledged Nato member in time for the April summit in Washington, Kwasniewski shows the holy book to visitors with the very remark: "When Nato asks me if we're ready for membership I just show them this."

Off its perch

Not much to sing about if you're a rainbow lorikeet currently perching in New Zealand. The brash and colourful Australian bird is being expelled from the country because it's threatening to snuff out doddler locals.

Conservation minister Nick Smith has declared it bird-non-grata because it eats the same food as the black and white tui and the kakariki - birds that "go to the core of what it is to be a New Zealander".

"I don't want Auckland to become just another Aussie city devoid of New Zealand bird life. If people want lorikeets they can have them in a cage or go to Australia," he says. It's enough to make a kookaburra cackle.

Financial Times

100 years ago

Spanish Senate Crisis Madrid, 17th February. Cabinet Council held yesterday evening, under the presidency of Senor Sagasta, was unanimous in refusing to accept the resignation of Senor Montero Rios as President of the Senate. The Government is said to be resolved, should he insist upon resigning, to publish a decree officially refusing to accept his resignation. The opinion prevails in political circles that, if the Cabinet is called upon to resign, a new Liberal Ministry will be formed, but not with Senor Sagasta at its head.

50 years ago

Israel's Economy The Israelis like to compare their country with Switzerland in more than one respect. They would like to remain neutral in another world war. They want to develop a tourist industry, and although short of most industrial materials, they want to become a manufacturing centre. Industrially, the country had already progressed before and during the second world war, when Jewish Palestine was one of the most important work and repair shops of the [British] Eighth Army.

THE LEX COLUMN

Diving Dell

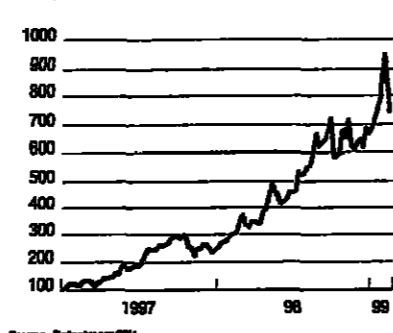
When a stock is trading on nearly 100 times earnings, investors expect perfection, and rightly so. Dell's latest results contained a blemish. Earnings rose by more than 50 per cent for the 12th quarter in a row. But revenue growth slowed to 38 per cent from an average of 66 per cent over the past two years. Worries that Dell's days of easy market share gains are over have knocked more than 20 per cent off the shares in three days.

Those fears look overdone. Dell's management admits it missed a trick in the fourth quarter; it did not cut prices fast enough. The group still hit its earnings targets, since fatter margins made up for the lower revenue growth. But that was of little comfort to a Wall Street focused on top-line momentum. Of course, investors are right to be watching like hawks for signs of mortality at Dell. However, they should not ignore its fundamental strengths.

Dell's model of direct selling looks alluringly simple. But it has developed its infrastructure and service culture over 15 years. While IBM, Compaq and Hewlett-Packard struggle to catch up, Dell is migrating to selling over the internet, further cutting costs. With Dell growing at three times the industry rate of 15 per cent, forecasts of 30-40 per cent compound annual earnings growth over the next five years do not look outlandish.

The drop in the forward price/earnings ratio from 70 to 55 leaves the shares looking attractive.

Dell Computer
Share price relative to the S&P Composite



Source: DataStream

water. Sorting through how best to manage this process, and exploring options to simplify it, will take time. One idea might be at least to impose the same excise duty throughout one trip, as would be the case with VAT. The risk is that the duty-free lobby exploits the confusion to win a stay of execution. The European Commission should resist this.

As far as the UK is concerned, the abolition of duty-free merely draws attention again to how high its excise rates are relative to most European Union members. But then, as proponents of the withholding tax will remember, the UK's is supposed to be a government that believes in healthy tax competition between countries.

Duty-free

In a supposedly common market, the debate on duty-free gets more surreal by the minute. It is high time to abolish duty-free within the European Union. It distorts competition and subsidises certain travellers at the expense of others, not to mention those who stay at home.

The problem is what comes next. Post duty-free, ferry passengers stocking up on goodies between the UK and France will be exposed to four different tax rates. There will be two VAT rates. And on each leg of the trip, two excise duties will apply, depending on whether the goods are sold in UK or French waters. Tax lawyers will be in heaven. Consumers will curse as they try to squeeze their shopping in the cheapest - if muddiest - bit of

Mobile advertising

They call it word of mouse. Free or deeply discounted internet services are springing up all over the web. Access to the internet itself is one such service. The "word" spreads, the eyeball count shoots up, and the advertisers pile in. Internet entrepreneurs hope the advertising will compensate them for giving away the product free. Mobile phones, as just another distribution channel, could try the same trick: giving away air-time in exchange for piping advertising jingles to users. Many will refuse the sweetener, but some - say cash-strapped teenagers - may lap it up.

But substituting advertising income for subscription income is not exciting. Far more important is how mobile operators

tap into the internet potential. Wireless devices will increasingly allow for internet access, and mobile operators could turn into another type of internet service provider. Their challenge is to become not just the network that gets mobile users hooked on to the internet, but also helps them navigate around it. Fixed-line internet service providers do this already by establishing portals, or shop-windows for the internet, where retailers advertise their web-sites.

The carrier mobile operators will try to replicate something like this for the wireless world, thereby earning incremental advertising revenue. But the competition will be fierce, from the manufacturers to the established internet players.

BP Amoco

What better year to wield the axe than when the price of oil is a painfully low \$10 a barrel. At this price, BP Amoco makes no money in cash terms after paying its regular bills. So the \$1.5bn restructuring charges will push up debt. It is no wonder the timetable for achieving \$2bn savings has been accelerated and capital spending slashed from \$10.1bn to \$7bn. In one sense it is a pity that only \$1bn of disposals are allowed under "pooling of interest" rules. But anything that eased the sense of urgency this year might be counterproductive.

As it is, 1999 will be a year to forget. The savings could easily be wiped out if the oil price and chemicals margins stay as low as in the fourth quarter. The one plus point in this "running to stand still" scenario is that BP Amoco should look relatively resilient compared with its peers. Only the even bigger combination proposed by ExxonMobil will have similar duplications to strip away. The cost-cutting story - made more convincing by the BP management's assertiveness - will doubtless run for another year or so. If the total exceeds \$3bn, that alone would plug most of last year's drop in combined operating profits to \$5.4bn.

But to watch investors' appetites longer term, BP Amoco will need to sound equally convincing that its reshaped portfolio can take full advantage of an upturn. A story of well-managed shrinkage cannot sustain the current chunky premium to Royal Dutch/Shell.

Israel risks US sanctions over software piracy

Washington issues warning after government fails to tighten laws

By Judy Dempsey in Jerusalem

Israel risks sanctions under US trade law unless it enforces legislation to combat pirated music, software and compact discs, US diplomats warned yesterday.

The warning followed repeated US requests to the Israeli government to tighten legislation.

"We have not seen as much progress as we like to," said Edward Walker, US ambassador to Israel. "Israel's fundamental interest must be protecting intellectual property rights."

Sanctions would undermine Israel's export growth, increasingly driven by the high technology and software sectors. Software exports grew 15 per cent last year, reaching almost \$900m, while high-technology exports exceeded \$2.5bn.

The piracy of software, particularly CDs, has also spread to areas controlled by the Palestinian Authority, US officials say. Recently, Israelis and Palestinians involved in the counterfeiting business set up

two manufacturing units in the West Bank cities of Hebron and Nablus to produce pirated CDs. Once manufactured, the software is transported to Israel where it is distributed.

US companies have repeatedly complained about Israel's failure to protect intellectual property rights. The International Intellectual Property Alliance - which lobbies on behalf of industry for copyright protection - this week asked Charlene Barshefsky, the US trade representative, to name Israel a "priority foreign country" under US trade law - a provision which would give Israel six months to take action or face sanctions.

US companies claim to have lost over \$70m in revenues during 1997 because of Israel's export-driven pirated audio CD market. US officials warned that other companies would not invest in Israel or provide venture capital unless legislation was tightened.

According to the Business Software Alliance (BSA), the US-based industry lobby, nearly 70 per cent of

all software installed on computers in Israeli businesses in 1996 was illegal.

Israeli trade ministry officials said they were taking measures to push through new legislation. They pointed out that the maximum prison sentence for piracy was already three years and the maximum fine \$10,000 (\$34,700).

But Deborah Schwartz, economic affairs counsellor in the US embassy in Tel Aviv, said that of the 225 criminal cases of piracy brought before the courts last year "not one single sentence was made and there has been no movement on the legislative front. What is taking place in Israel is plain burglary."

Israeli recording artists are also demanding tougher action. Itzhak Ashdot, composer and board member of Israel's Society of Authors, Composers and Music Publishers, said artists were no longer willing to record in Israel because of piracy. Artists, he added, were losing between \$2m and \$3m a year in royalties and copyright fees.

Pakistan ponders call for bond rescheduling as debt talks near

By Peter Montagnon and Farhan Bokhari in Islamabad

Pakistan is to begin formal talks with commercial bank creditors on rescheduling \$800m in debt around the end of the month.

But it will defer a decision on whether to proceed with a controversial request from government creditors that it also reschedule over \$500m in international bonds. Further talks on rescheduling the bonds would be held with the Paris Club of government creditors next month, Ishtaq Dar, finance minister, said in an interview.

Pakistan and its commercial creditors were taken aback by the Paris Club's recent request. Rescheduling of bonds is rare and difficult because the owners of such bearer securities are often impossible to trace. Costa Rica, Guatemala and Panama - rescheduled bonds in the 1980s but only on a voluntary basis.

Many government creditors hope a precedent can be set that could be

applied later to Russian debt, although some worry that the Paris Club will agree lenient terms with Pakistan.

Mr Dar said he would have preferred not to include bonds in the rescheduling because of the potential impact on Pakistan's future access to the securities market. "It's not a matter of reaching a unilateral decision," he added.

"It's a matter of working together with the Paris Club, because they also have no experience in this regard. We might well come out with the result that [rescheduling bonds] is something only good to think about but not practical to implement."

Even without the bond controversy, bankers are still sceptical of speedy progress on the commercial rescheduling. At least two banks have turned down invitations to chair the steering committee of leading creditors, while Mr Dar indicated he would drive a hard bargain, seeking terms comparable with the Paris

Club, which said it would grant an exceptionally long maturity of up to 20 years.

There remain nagging worries about Pakistan's ability to stick to the International Monetary Fund programme on which all rescheduling efforts depend. By the end of March, Pakistan must cut its maximum import tariff from 45 per cent to 35 per cent and increase electricity prices by 11 per cent. On top of an elimination of earlier subsidies, this will mean effective prices to power consumers will rise by nearly 60 per cent by September.

The government must also abolish the manipulated official and composite exchange rates before June. That could prove expensive because the central bank has given forward cover at the official exchange rate of Rs46 to the dollar on \$5bn in non-resident deposits in the banking system.

Warning for bond investors, Page 6
Capital markets, Page 20

CONTENTS

News

European News	23
American News	5
International News	7
Asia-Pacific News	6
World Trade News	4
UK News	8
Weather	12

Features

Editorial	11
Letters	10
Management/Technology	18
Observer	11
Arts	9
Arts Guide	9
Analysts	10, 11

Crossword Puzzle

22

Companies & Finance

International Company News	14
Asia-Pacific Company News	15
American Company News	16
International Capital Markets	20

Markets

Bonds	20
Bond futures and options	20
Short term interest rates	21
US interest rates	21
Currencies	21
Money markets	21
FTSE-100 World Indices	29
Eurostoxx	19
World stock markets reports	32
World stock market listings	29
London share service	26, 27
FTSE Actuaries UK share indices	28
Recent issues, UK	26
Dividends announced, UK	17
Managed funds service	23-25
Commodities	22
FTSE Gold Mines Index	26

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FT Annual Reports Service: online viewing of \$500m in international bonds. Further details on rescheduling the bonds would be held with the Paris Club of government creditors next month, Ishtaq Dar, finance minister, said in an interview.
<http://www.ft.com/annualreports.htm>
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<http://www.ft.com/ftgroup.htm>
Citylink: how to get share prices and market reports by telephone and fax.
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<http://www.ft.com/surveys.htm>



US vice-president Al Gore greets South African leader Nelson Mandela and his deputy Thabo Mbeki in Cape Town during a three-day visit

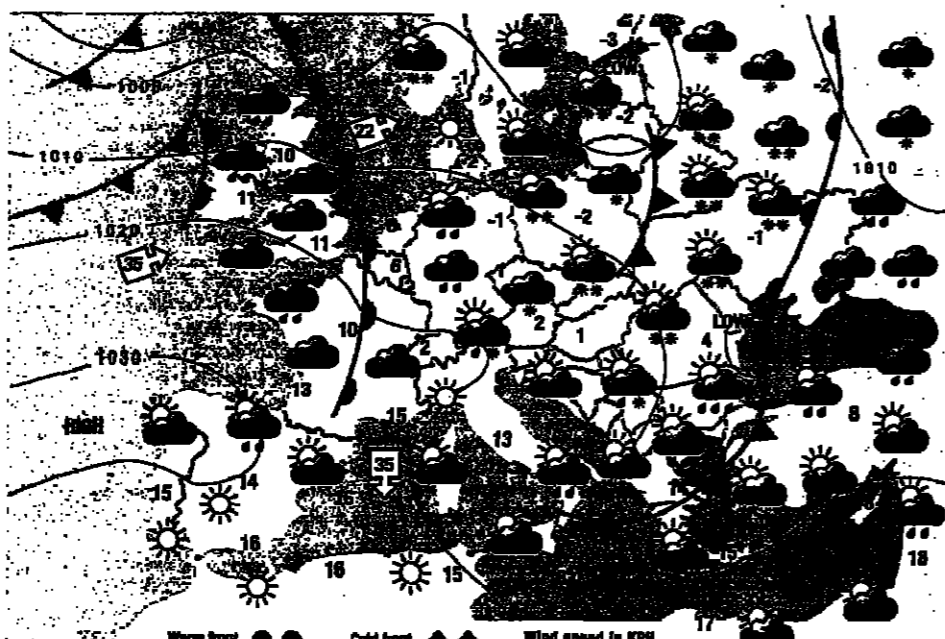
FT WEATHER GUIDE

Europe today

France and the Low Countries will turn milder but will be rather cloudy with patchy rain slowly clearing away eastwards. Western Norway, Denmark, western Germany and Switzerland will stay cold with snow edging in from the west this afternoon. Most of Spain, Portugal and Italy will be quite sunny although north-east Spain will have showers. A cold wind will cross Italy. Greece will be unsettled with heavy showers but Cyprus should stay fine and quite warm.

Five-day forecast

Central and north-west Europe will be unsettled with rain. It will be mild tomorrow with snow confined to the mountains, but temperatures will drop again later in the week-end. Another heavy fall of snow is expected over the Alps on Saturday. The western Mediterranean will stay settled and quite sunny.



Situation at midday. Temperatures maximum for day. Forecasts by FT WEATHER CENTRE

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	Sun 26	Beijing	Sun 2	Chengdu	Fair 2	Edinburgh	Cloudy 9	Madrid	Sun 16
Accra	Fair 28	Belfast	Drizzle 10	Cairo	Fair 23	Faro	Sun 16	Moscow	Sun 10
Algiers	Sun 16	Bombay	Sun 4	Cardiff	Fair 11	Frankfurt	Fair 23	Mumbai	Fair 27
Amsterdam	Rain 8	Buenos Aires	Cloudy -1	Chicago	Fair 2	Glasgow	Cloudy 10	Nairobi	Thunder 26
Athens	Shower 14	Calcutta	Fair 22	Colombo	Fair 2	Hamburg	Cloudy 9	Rangoon	Fair 35
Bahia	Cloudy 18	Dakar	Fair 22	Dublin	Fair 22	Helsinki	Cloudy 23	Reykjavik	Snow 3
Bangkok	Fair 27	Dhaka	Fair 22	Durham	Fair 22	Hong Kong	Cloudy 23	Rio	Rain 25
Bombay	Shower 19	Doha	Fair 22	Edinburgh	Fair 22	Kobe	Cloudy 17	Sao Paulo	Rain 17
Brussels	Rain 6	Dubai	Fair 22	Geneva	Fair 22	London	Cloudy 15	Seoul	Fair 2
Buenos Aires	Cloudy 11	Dubrovnik	Sun 9	Heidelberg	Fair 22	Los Angeles	Cloudy 15	Singapore	Thunder 31
				Jersey	Cloudy 11	Manila	Shower 27	Stockholm	Fair 1
				Johannesburg	Thunder 26	Mexico City	Sun 25	Stuttgart	Cloudy 5
				Karachi	Sun 29	Montreal	Snow 3	Taipei	Cloudy 18
				Khartoum	Fair 27	Moscow	Snow -2	Tokyo	Rain 13
				Kuala Lumpur	Fair 27	Mumbai	Thunder 26	Toronto	Fair 2
				Lagos	Fair 27	Nairobi	Thunder 26	Vancouver	Cloudy 8
				Las Palmas	Fair 20	Nice	Sun 15	Warsaw	Snow 2
				Lima	Cloudy 27	Nicosia	Fair 15	Wellington	Shower 6
				Lisbon	Sun 15	Oslo	Snow -1	Winnipeg	Shower 6
				London	Rain 11	Paris	Cloudy 10	Zurich	Cloudy 3
				Luxembourg	Cloudy 2	Perth	Sun 1		
				Lyon	Cloudy 6				

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THURSDAY FEBRUARY 18 1999

Week 7

FINANCIAL TIMES

COMPANIES & MARKETS

PIPELINE CENTER

No. 1 for Quality Service

WOLSELEY

The name behind the name

INSIDE

BNP plan receives French backing

The French government has welcomed plans by Banque Nationale de Paris to play a leading role in the privatisation of Crédit Lyonnais, and its offer to guarantee jobs at its level in the event of an alliance. Analysts say BNP's plan to maintain two separate networks but share a platform of products is viable. Page 14

Small town broker branches out

Edward Jones, the Missouri-based broker that is one of the few remaining partnerships in the US financial services sector, has thrived for decades by selling stocks and mutual funds through one-man offices in small-town America. Now, it is talking of expanding in the UK and continental Europe. Page 16

Japan succumbs to the internet bug

In the past few months the US frenzy for the internet has spread to Japan. Internet-related stocks have soared, pushed up by the internet's perceived growth opportunities and a lack of investment alternatives. However, it is uncertain that internet growth in Japan can accelerate enough to justify current valuations. Page 15

Softbank sells 3m Yahoo! shares

Softbank, the Japanese software company best known for its internet investments, has sold 3m shares in Yahoo!, the US internet search engine company, to cover consolidated pre-tax losses from other investments. The company plans to use the proceeds to make further internet investments - something that has proved more profitable than its software operations. Page 15

Updated systems enhance Cairo

Hopes for a faster pace of privatisations and initial public offerings from family-owned Egyptian companies have risen with the announcement that the Egyptian Stock Exchange has inaugurated its automated trading, clearance, settlement and surveillance systems. Key to attracting the private sector to the market has been the need to assure companies that the ESE is capable of overseeing a high volume of trade while ensuring transparency. Page 32

Futures price index at 24-year low

World commodity markets showed renewed signs of weakness as crude oil prices slipped below \$10 a barrel in London and the broad-based Bridge/CRB Futures Price Index fell to a new 24-year low. Page 22

Greece to extend bond maturities

Greece will issue its first 20-year bond in the second quarter and plans to bring its debt profile into line with the rest of the European Union by issuing a 30-year bond before the year-end. Page 20

COMPANIES IN THIS ISSUE

AOL	16	Mitsubishi Electric	13
AT&T	16	Monsanto	8
Alibank	14	MorphoSys	14
Aliaz	14	NEC	15, 13
Alpha Credit Bank	14	Nice Systems	14
Axa	14	Nova Nordisk	14
BNP	14	Oracle Japan	15
BP Amoco	25, 13	Outlet Centres Intl	18
Bank Austria	14	Packard Bell	13
British Aerospace	28	Paribas	14
British Airways	28	Puerto Rico Tel. Co.	5
Cadbury Schweppes	28	Railtrack	28
Commercial Bank	14	Rauma	14
Crédit Lyonnais	14	Rapsol	8
Daimler-Benz	14	Rhône-Poulenc	14
Deutsche Bank	14	Saga Petroleum	14
EPG Eurobank	14	Scania	14
eBay	16	Shell	8
Edward Jones	16	Shell Transport	28
Endemann Internet	14	Sidanco	28
eToys	16	Slag and Lattuca	28
Fitcher Challenge	16	Société Générale	14
Fujitsu	15, 13	Softbank	13
GKN	28	Software AG	13
GTE	5	Starwood Hotels	18
Garrett Bank	14	Suntomo Bank	15
H.J. Heinz	13	Sunamto Trust	15
Hitachi	13	TCI	16
Hoschst	13	Tesco	8
IFAO	14	Tohiba	13
IBJ	15	Trend Micro	15
Iranian Bank	14	United News & Media	28
Kuwait Petroleum Co.	14	Valmet	14
Lehman Brothers	16	Volvo	14
Lucent	16	Weight Watchers	28
Mastnet	15	Woodchick	28
		Yahoo!	18
		YahoolJapan	16
		Zenicon	8

CROSSWORD, Page 22

MARKET STATISTICS

4-week reports club	24, 27	Emerging Market bonds	20
Bankers' Gov bonds	20	FBI Advances share index	28
Bank futures and options	20	Foreign exchange	21
Stock prices and yields	20	500 prices	21
Commodities prices	22	London share index	21
Dividends announced, UK	21	Managed funds service	21
EMS currency rates	21	Money markets	21
Euro prices	21	New 100 bond issue	20
Swedish prices	21	Recent issues, UK	20
Fixed interest index	21	Short-term rate	21
FUSAP-A World index	21	Stock markets at a glance	21
FIS Gold index	21	US interest rates	21
		Word stock markets	21

OIL GROUP HOPES TO FIND \$2BN SAVINGS A YEAR EARLIER THAN FORECAST TO IMPROVE COMPETITIVENESS

BP Amoco to cut costs

By Robert Corzine in London

BP Amoco, the recently merged oil group, is to accelerate its integration to try to deliver \$2bn of projected cost savings and synergies within 12 months, almost a year earlier than forecast.

Most of the savings would come in the US, Sir John Browne, chief executive, said yesterday. That would account for 60 per cent of the merger synergies, with most of the remainder in the UK and Europe.

Sir John announced measures aimed at improving competitiveness at a time when all three of BP Amoco's main business areas are under financial pressure.

Worldwide job losses at the combined group are to be accelerated, with an additional 3,000 jobs - many of them managerial and professional - to be eliminated this year on top of the 7,000 that have gone since the merger seven weeks ago. About 20 per cent of the combined white collar work force will be affected.

The company intends to take a \$1.5bn special charge this year to cover the cost of the job losses.

The deterioration of trading conditions was reflected in a 34 per cent fall in full year consolidated profits to \$4.5bn, one of the better performances among the large international integrated oil groups. Consolidated fourth quarter profits were \$870m before exceptional items but after adjusting for special charges of \$351m.

These include \$45m in merger costs and a \$200m writedown on British Petroleum's 10 per cent share of Sidanco, the troubled Russian oil company which has recently gone into a form of administrative bankruptcy.

The Sidanco writedown is seen as especially sensitive, given that the decision to do the deal at the end of 1997 was one of Sir John's few obvious miscalculations since he assumed his position three years ago.

Although Brent crude oil prices yesterday fell through the bottom of their recent trad-

ing range of \$10-\$12, Sir John insisted that "the future has not been cancelled" by what he called the "very difficult environment."

He also repeated his view that crude prices below \$10 a barrel were unsustainable, because the resulting cuts in investment would affect the supply and demand fundamentals of the global industry.

For planning purposes BP Amoco is looking at an \$11 average for the year.

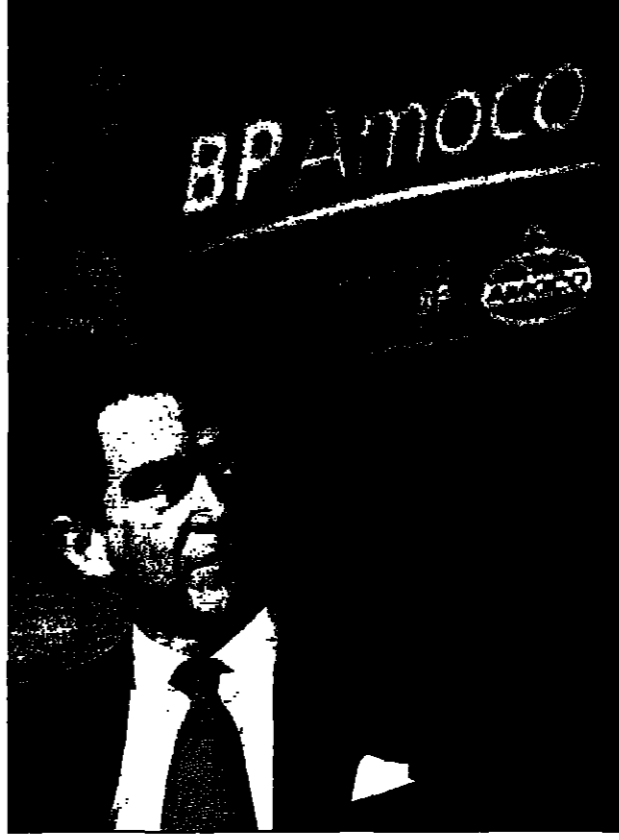
In the upstream sector, BP Amoco is to focus this year on improving margins high margin production at the expense of volumes, which are likely to be flat.

Exploration and production profits in the fourth quarter were down 57 per cent to \$74m.

Exploration expenditure this year will be focused on four areas which offer the potential for large, low-cost fields.

There will also be a drive to slash lifting costs. Overall capital expenditure will fall from \$10.1bn last year to \$7bn.

Lex, Page 12



Seeking savings: BP Amoco chief Sir John Browne yesterday Colin Beare

Software AG unveils offering

By Uta Harnischfeger in Frankfurt

Details of what may be Europe's biggest stock market launch of a software group were yesterday revealed by Software AG, the German enterprise systems provider.

The initial public offering, due in the second quarter of the year, is expected to raise at least DM1bn (\$600m).

Software AG, set up with six employees in 1969, compared with an expected 2,550 by the end of this year, plans to use the proceeds to enter new sectors and acquire companies or licenses from related businesses such as security software or data filters.

SAP is the only other Frankfurt-listed pure technology stock.

The two trusts that comprise Software AG's current shareholders are to sell more than half of their 25m shares. The company also plans to issue 3m new shares. If there is over-subscription, the company has authority to increase the number of shares by 15 per cent.

If all the potential new shares were issued, the owners would be left with about 35 per cent of the company.

Erwin König, chairman, said yesterday he hoped a third of the shares would go to German investors, with "a large part" going to private investors, and a third to the

US. They will be listed on the Amstlicher Handel (main market segment) of the Frankfurt exchange.

Preliminary pre-tax profits of DM87.3m for 1998 were 35 per cent up on a year before, Software AG said. Group sales were 9 per cent up at DM666m. Sales and profits this year should rise by "at least at 1998 levels, if not more," Mr König said.

Lehman Brothers, bookrunner and global co-ordinator for the deal, said that even using conservative estimates, Software AG should achieve a p/e ratio close to the 40 to 50 of other software companies such as SAP and Oracle. Christian von Jagwitz-Siegnitz of Lehman said the company could even have more potential, given that "its licensing business alone grew 18 per cent last year, compared with 11-13 per cent at Oracle and SAP."

The company is best known for Adabas, a high-performance database management system, and Natural, a so-called application tool. Adabas, on the market for 26 years, is used by such companies as Chase Manhattan, Dow Jones and Deutsche Lufthansa.

Last year, the company introduced EntireX, which communicates between different software applications.

Endemann's search, Page 14

Heinz to cut 4,000 jobs in global restructuring

By William Lewis in New York

H.J. Heinz, the US foods company, plans to cut as many as 4,000 jobs from its worldwide workforce of 40,000 over the next four years as part of a wide-ranging restructuring.

It plans to sell off its underperforming Weight Watchers classroom division, close or sell 15 to 20 factories and shake up its manufacturing and distribution system.

Heinz said it expects the restructuring to produce annual cost savings of more than \$300m from 2002, while triggering a pre-tax restructuring charge of about \$90m.

The restructuring, code-named Operation Excel, will mainly affect operations in Europe. Speaking yesterday to analysts in Naples, Florida, William Johnson, Heinz president and chief executive, said the company's European management team had proposed the closure or sale of one-third of its 21 factories in Europe.

In the UK, the group said it was considering closing its plant in Harlesden, north-west London, which employs about 450.

Globally, Heinz expects to close or sell between 15 and 20 factories and scale back at least 10 more, while expanding at least 13 factories.

Although Heinz is planning to sell off Weight Watchers

International, which offers dieting classes, it will keep Weight Watchers brand frozen foods. In recent years the Heinz stock price has underperformed the wider market partly because of the Weight Watchers division.

Mr Johnson said the decision to sell Weight Watchers, which has annual sales of about \$400m, reflected "the different skills required to manage a retail business, which are not synergistic with our core competencies."

He also disclosed plans to change the company's manufacturing and distribution structure from a decentralised collection of "unaligned autonomous affiliates" to one managed according to global product categories.

Manufacturing and distribution will now be run through so-called "centres of excellence" that will focus on processing and product expertise on a category-by-category basis across North America, Europe and the Asia-Pacific region.

For example, Heinz will reduce its 24 ketchup bottle designs in Europe to 12, saving at least \$5m annually.

Mr Johnson, who in April took over from Tony O'Reilly as Heinz president, said: "Operation Excel makes possible the focus and scale that are essential to winning in the food industry. It is regrettable that a necessary consequence of the restructuring process is a reduction in our global workforce."

Heinz forecasts that over the next four years the restructuring will deliver volume growth of 3-4 per cent annually and growth in earnings per share of 10-12 per cent.

The group planned to focus on six core food categories in six countries where it has the "superior scale to leverage the global power of our brands," Mr Johnson said.

The six core food categories in six countries contribute 80 per cent of the company's total revenues of about \$9bn and 90 per cent of operating income.

The restructuring, which has yet to be approved by the Heinz board, left Wall Street unmoved yesterday morning. The shares, which have fallen more than 5 per cent over the past year, slipped 4% in early trading to end the morning's session at \$55.

President of NEC under pressure to resign

By Alexandra Nashbaum and Michio Nakamoto in Tokyo

Hisashi Kaneko, the president of NEC, is likely to face pressure to resign at an extraordinary board meeting tomorrow, when Japan's largest personal computer manufacturer is expected to report huge losses.

The apparent turmoil at NEC underscores the crisis gripping Japan's electronics conglomerates. These groups, which include Hitachi, Fujitsu, Toshiba and Mitsubishi Electric, have suffered from weak domestic demand, a collapse in export earnings caused by the yen's strength, and plunging semiconductor prices.

NEC's net losses are estimated at ¥150bn to ¥200bn (\$127m-\$168m) for the year ending March 1999, compared with a previously forecast loss of ¥35bn. That compares with consolidated net profits last year of ¥41.3bn.

"We do not deny that the loss will be greater than our October forecast," said an NEC official.

Moody's Investor Service announced that it was placing NEC under review for a possible downgrade of its A3 senior unsecured debt rating.

Analysts recently revised down their forecasts, citing the poor performance at Packard Bell, NEC's personal computers business in the US. NEC has invested about \$180m in the subsidiary, which it had planned to sell in an initial public offering this year.

Hiroshi Yoshihara, an analyst at Salomon Smith Barney, said: "An IPO of Packard Bell is out of the question now. The company expected Packard Bell to break even in 1998, but it had a record loss of \$150m in the first half of the year and will lose at least \$350m in the second half."

NEC is also wrestling with issues of management credibility. Last October, Tadahiro Sekimoto, NEC's former chairman, resigned over a defence procurement scandal, but Mr Kaneko declined to resign with him.

The episode damaged NEC's public image and its revenue. However, NEC's stock proved resilient to the news of expected losses, closing down 1% at ¥1,055, implying that Mr Kaneko's resignation would be regarded positively.

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Bank for International Settlements, September 1998

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ASIA-PACIFIC

Japan succumbs to the internet bug

Alexandra Nussbaum finds that late conversion brings associated problems of over-valuation to the stock market

Japan ought to have had enough of stock market bubbles. But in the past few months the US internet frenzy has seized the country, contributing to concerns that Japan's fledgling internet industry is severely inflated.

Japanese internet-related stocks have soared recently, pushed up by perceived growth opportunities of the internet and a lack of attractive investment alternatives. However, it is uncertain internet growth in Japan will accelerate enough to justify current valuations, including price-to-earnings multiples that are comparable to US internet stocks.

Since early January, Japanese internet stocks, like their US brethren, have undergone a minor correction but continue to look expensive.

Yahoo! Japan, a subsidiary of the US search engine, trades at a price-to-earnings ratio of 1,378 times based on last year's earnings, in spite of a recent 3.5 per cent drop in its share price.

Yahoo! Japan's stock climbed six-fold from last year's low of ¥2.6m (\$33,609) to a high of ¥17m on Janu-

ary 19. Softbank, the media and software company that owns 60 per cent of Yahoo! Japan, has seen its stock price climb 145 per cent from ¥3,700 last year to a high of ¥9,100 in January. And Trend Micro, an anti-virus software company that is 25 per cent owned by Softbank, saw its share price

jump 125 per cent from a low of ¥4,180 in October to a peak of ¥9,410 on January 12.

In the past month, Softbank's stock has fallen about 12 per cent, while Trend Micro's share price is down about 16 per cent. Masternet, an internet service provider that allows users to download music for karaoke, is trading at a price-to-earnings ratio of 212 times after its stock jumped six-fold last December.

It closed at ¥2,45m on January 12.

rate performance, explains Shinichi Makiyama, Masternet president.

Oracle Japan's recent initial public offering is the latest indication of the pent-up demand for internet-related investments, particularly among retail investors. The stock's debut on the over-the-counter market was at a 73 per cent premium to its offer price and was more than 100 times subscribed, said Hiroyuki Hoshi, a broker at Nikko Securities, which was lead manager of

the offering. As in the US, investors' expectations of future growth, rather than concrete earnings, has pushed stocks to these levels.

"The problem is that you cannot estimate the size of the internet market, and the lack of an estimate further boosts expectations," says Yuichi Honda, analyst at Deutsche Morgan Grenfell.

"The earnings of internet-related companies will maintain double-digit growth for the next two years, but even so, the shares are trading at a premium," he adds. It is not surprising that Japan's internet sector is hot. What is surprising is the country that created the Walkman and the digital video-disk has taken so long to embrace the internet.

Even Japan's big electronics companies such as NEC and Fujitsu have not made any significant contributions to the internet in terms of software or operating systems. Both companies have gingerly entered the market by creating internet service providers that compete with over 3,000 other ISPs to offer "value-added services", such as family-oriented products and educational programmes.

But Japan has produced

Japan's internet bubble?

Internet user penetration
% of population

Number of users
in Japan from US

Internet related stocks
Relative to Nikkei 225 Average

Sending scale

Nov 1998

Jan 1999

Feb 1999

Mar 1999

Apr 1999

May 1999

Jun 1999

Jul 1999

Aug 1999

Sep 1999

Oct 1999

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COMPANIES & FINANCE: THE AMERICAS

TOYS AND GAMES STRONG INTERNET TRADING COULD OFFSET DISAPPOINTING CHRISTMAS SALES

eToys aims to raise \$115m in IPO

By John Labate in New York

The toy and game industry came under the spotlight yesterday as eToys, the fast-growing online retailer, filed with US regulators for an initial public offering.

eToys, which is based in California, expected the deal to raise \$115m, but offered few details about the structure of the offering or when it planned to list.

The IPO, which had been widely expected, has drawn

the attention of leading underwriters, including Goldman Sachs and Banc Boston Robertson Stephens.

Although the toy and games sector suffered a disappointing holiday sales season, the internet is considered a viable channel for retailers and manufacturers in the highly competitive sector and eToys has proved a strong contender for the growing online audience.

According to yesterday's filing, eToys' revenues for

the fourth quarter of 1998 reached \$22.9m, up from \$500,000 the year before, when the company launched its web site.

The company said it had sold toys, games and software to 320,000 customers.

"In the broader scheme of the toy industry, [the eToys IPO] is a pretty small development. However, it could be very important, since the toy category would appear to lend itself to a certain

amount of e-commerce," said Ursula Moran, analyst at Sanford C. Bernstein in New York.

The main risk, she added, was the substantial price competition that online commerce faces.

Analysts said the online portion of children's toys and games remained small, at perhaps only 1 per cent of the industry's total estimated annual sales of \$30bn.

However, the delivery and

selection services offered by internet-based retailers are expected to draw an ever larger audience of PC-based consumers, especially those who have been frustrated by long lines and low inventories of traditional retailing companies.

Traditional retailers, such as Toys R Us and Wal-Mart, have already entered the internet market with their own websites, but a greater threat to internet-based rivals such as eToys may

come from the toy manufacturers themselves, including Mattel.

"I wouldn't think the manufacturers would stand for eToys to undercut them," said Margaret Whitfield, toy analyst at Tucker Anthony.

Mattel, which recently announced the acquisition of The Learning Company, is expected to launch its own website, aimed at high-end and customised children's toys, during the second half of this year.

Starwood to increase hotels

By Elizabeth Robinson

Starwood Hotels, the US hotels and casino operator, aims to increase its hotel portfolio by 45 per cent within three years to more than 1,000 properties.

The company will spend \$800m on renovating its hotels this year, on top of the \$2.3bn spent since 1985. The company expects to expand aggressively in Europe, where it operates 108 hotels.

"We will participate in the industry's consolidation," said Juergen Bartels, chief executive of Starwood's hotel division, whose brands include Westin and Sheraton.

US hotel companies are seeking to bring their brand power to Europe to benefit from marketing and purchasing synergies. While about 60 per cent of US hotels are affiliated to brands, less than one-quarter of hotels in Europe are branded.

Ladbroke, which operates the Hilton brand outside the US, last week agreed to buy Stakis for £1.5bn (\$2.44bn).

giving it 90 Hilton hotels in the UK - a move industry observers said was the start of greater consolidation in the UK and Europe.

Mr Bartels sees the UK as particularly ripe for acquisitions. "If we couldn't double in three years, we would be very disappointed," he said. The company operates eight hotels in the UK, including the Turnberry hotel and golf resort in Scotland.

Mr Bartels called the \$800m renovation on the 223 hotels that Starwood owns or operates as joint ventures a long-term strategy. Of that, some \$200m was "our natural and needed spending level". He expected the owners of the remaining Starwood hotels, which operate as franchises or management contracts, to match the total figure on a hotel-by-hotel basis.

Starwood, which bought ITT Corporation in 1997 for \$10.2bn, abandoned its "paired share" real estate investment trust (reit) status earlier this year, turning itself into a conventional company with a reit subsidiary.

Lehman buys controlling OCI stake

By Norma Cohen, Property Correspondent

Lehman Brothers, the US investment bank, has purchased a majority stake in Outlet Centres International, a company developing US-style discount shopping centres in Europe.

Lehman declined to disclose the value of its investment. However, OCI said its portfolio consisted of three

centres providing 400,000 sq ft of retail space with an estimated market value of about £150m (\$245m).

The company intends to open its first centre, at Gretna Green, Scotland, this spring. It plans to open a second, near Stockholm's Arlanda airport, this autumn and planning permission has been obtained for a further centre on the site of a former

Nato airbase in Zweibrücken, Germany.

Wilson Lee, head of the European real estate principal transactions group at Lehman, said: "We believe this business sector has tremendous potential to repeat the growth seen in the US and the UK."

The move comes amid growing price-sensitivity among European shoppers who are eager to purchase

top-quality goods at lower prices. Factory outlet centres have been a fixture in US retailing for 20 years and are welcomed by manufacturers who see them as outlets for end-of-season goods.

Hans Dobke, chief executive of OCI, said that European shoppers have long been price-conscious, but have been unable to buy quality goods at discounts because of extensive lobby-

ing by full-price retailers.

Tough restrictions on out-of-town retailing centres had delayed construction of new centres and manufacturers had been unwilling to support in-town centres for fear of "cannibalising" their existing franchises, Mr Dobke said.

Factory outlet centres first appeared in the UK in the early 1990s and more recently on the Continent.

Talk of AOL link lifts eBay shares

By Roger Taylor in San Francisco

Shares in eBay, the internet auction business, jumped in early New York trading yesterday on reports that the company was in talks with America Online, the largest provider of internet services in the US.

The shares initially rose 6 per cent following a Wall Street Journal report that AOL was considering taking small stake in eBay.

However by mid-afternoon the stock drifted back to \$25.4, a 2 per cent increase on its opening price.

AOL declined to confirm the talks but said it was constantly in discussions with a large number of internet companies.

eBay was unavailable for comment.

AOL has links to a large number of internet auction businesses, including uBid, Onsale and bid.com, the Canadian online auction service.

However eBay has entered into a \$11m deal with AOL under which it gets exclusive promotion in some parts of the site.

Any further link up between eBay and AOL could see an AOL branded version of the eBay system established for AOL users.

eBay's internet site allows private individuals to auction goods to each other across the internet.

Shares in the company have jumped more than tenfold since it came to the stock market last year.

● Bid.Com is hoping to capitalise on US investors' enthusiasm for US internet stocks by seeking a listing on Nasdaq, writes Edward Alden in Toronto.

The company has already been among the most heavily traded stocks on the Toronto Stock Exchange.

Small-town broker takes a plunge in global waters

Expansion forced by cross-selling in industry, writes Nikki Tait

Michael Porter, the Harvard Business School professor and competition guru, is speaking to a couple of hundred brokers in suburban St Louis. His central message is: position your business to be different and don't try to make it all things to all men.

Edward Jones, the brokers' employer, hardly needs encouragement. One of the few remaining partnerships in the US financial services sector, it has made a lucrative business out of selling stocks and mutual funds through one-man offices in small-town America for decades.

The firm now has more than 3,900 outlets in the US, surpassing Merrill Lynch in terms of store-fronts. Unabashed, Jones boasts that many are in places few Americans could find on a map - Bardonia, Kentucky, say, or Thief River Falls, Minnesota.

Apart from a hiccup in 1994, net profits have risen consistently over the past decade. In the first nine months of 1998, Jones made revenues of more than \$1bn, mainly from commissions. That was a fourfold increase over 1990.

But domestic challenges

are mounting. The brokerage has no proprietary funds, and generates only minor investment banking income by handling bond or stock issues for client portfolios.

That, in turn, has encouraged the St Louis-based firm to consider exporting its plain-vanilla business model. Jones ventured into Canada in 1994, and last year began to open offices in the UK.

Now, the talk is of more than doubling the UK presence to 100 outlets by the year-end and expanding into other European countries shortly afterwards. "Certainly, in 2000, we'll have [offices in] Ireland," says Allan Anderson, the partner leading the European push.

Another mooted destination is the Netherlands, although Mr Anderson says the size of the German market is also attractive.

Perhaps surprisingly, the spur for this unlikely "internationalisation" is not the encroachment of internet-based share trading. In the US, Jones's customers are typically around retirement age and hold their investments for 18 years - hardly the stuff of cyber-trading.

Rather, Jones's challenge results from the consolidation in US financial services.

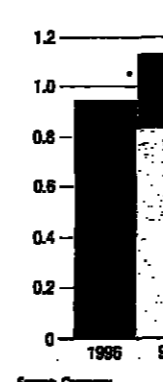
"The reason growth is critical is that the securities industry and banking have converged," says John Bachmann, Jones's managing partner. "Our competition is now the large 'super-regional' national banks."

Organisations such as BankAmerica, he points out, have thousands of locations, coast to coast, with enormous potential economies. "For us to retain our independence, we have to keep pace. We have configured ourselves differently - there's no one for us to acquire or merge with, so it becomes essential for us to train and grow our own."

However, moving overseas is no easy solution. On the plus side, Jones claims that the UK experience has demonstrated a basic similarity in the demand for investment services. It also argues that ageing European populations, and the desire by governments to encourage individual savings and investment, augurs well. "The UK market is 30-40 years behind the US, but it will catch up in the next decade. And you'll see something similar in Europe," predicts Mr Bachmann.

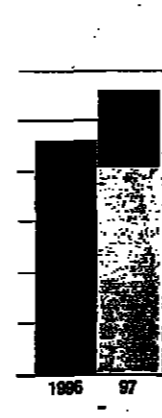
Edward D. Jones

Total revenue (\$bn)



Source: Company

Net income (\$bn)



- Post office accounts

But 12 months in the UK have also highlighted differences. Jones lost a quarter of the first 80-odd would-be investment representatives it hired during training.

But perhaps the biggest challenge comes from the nature of the savings and investment markets themselves. "More money in the UK goes into insurance products... and people don't buy fixed-income products," says Mr Anderson. "There's a predisposition on the part of the British citizen to buy insurance products. In a socialist kind of environment that's not unusual. It's a very risk-averse place to be."

Jones points out this is not necessarily disadvantageous, since commission on insurance-based products is often higher. But Mr Anderson does express some frustration over the less systematic commission arrangements in the UK and says the firm is

trying to persuade its investment providers to agree to some fixed fee arrangements.

He also yearns to be able to sell US-style fixed income products, such as certificates of deposit. "We're looking to talk to ABN-Amro about distributing a manufactured product in the UK," he says.

"For me to go to a UK customer and say 'we can sell this unit trust but we can also sell you a certificate paying 5 per cent' would be very nice."

Moving to continental Europe could add another layer of complication - although Jones is pinning hopes on the growth of common, euro-based investment products to simplify the task. "Today, I expect the Dutch will probably want to own a Dutch unit trust, but in three years, it could be a euro unit trust," says Mr Anderson.

Shareholders in AB Volvo (publ) are hereby summoned to an Extraordinary General Meeting in Göteborg, Lisebergshallen, entrance from Örgrytevägen. The Meeting will be held at 2:00 p.m. on Monday, March 8, 1999.

Agenda

1. Opening of the Meeting
2. Election of Chairman of the Meeting
3. Preparation and approval of the list of shareholders entitled to vote at the Meeting
4. Approval of the agenda
5. Election of minutes-checkers and vote-checkers
6. Determination of whether the Meeting has been duly convened

* Volvo Cars represent all of the issued and outstanding shares in Volvo Personvagnar Holding AB, which on completion of the contemplated sale will hold or have the right to all assets and liabilities that form Volvo's business area "Cars" as reflected in Volvo's annual report and Volvo Car Corporation's interest in the new company, which will own the Volvo trademark.

** Considering that NedCar BV, the Netherlands, is reported with a time lag of one quarter, the final net debt of this company, at December 31, 1998, has not yet been determined but is included on a preliminary basis.

7. The Board of Directors' proposal to sell Volvo Cars* to the Ford Motor Company, including Volvo Cars' interest in a new entity, owning the Volvo trademark and that the general meeting authorize the Board to take all appropriate actions to conclude the sale, substantially on the following terms:

(1) Volvo Cars is being transferred for SEK 50,000,000,000

(2) The sale is effective as of January 1, 1999.

(3) Adjustment will be made for net financial assets/liabilities in the main operations at December 31, 1998 and to the extent that debt/equity ratio in the sales-financing operations deviate from 9:1 at December 31, 1998. In total, it is estimated that these adjustments will decrease the purchase price by SEK 4.2 billion**. AB Volvo has also received a dividend of SEK 17.7 billion from Volvo Cars. After adjusting for said items the purchase price is estimated to SEK 28.1 billion.

- (4) The payment will be made in two installments, of which
 - (a) estimated SEK 10,169 M, plus USD 700 M on date of completion
 - (b) USD 1,613 M two years following date of completion

(5) Volvo expects that it will provide customary representations and warranties and related indemnities for this type of transaction.

(6) The sale is conditional on approval or negative clearance from the relevant competition or other authorities and approval of the General Meeting.

A separate document containing information on Volvo's sale of Volvo Cars to Ford will be sent to Volvo's shareholders before the Extraordinary General Meeting. The document can also be ordered from: Telefax: +46 31 66 20 20 E-mail: cs1.volvoinfo@memo.volvo.se It is also available on internet: www.volvo.com

Right to participate in the Meeting

Participation in Volvo's Extraordinary General Meeting is limited to shareholders who are recorded in the share register on February 26, 1999 and who advise Volvo not later than 12:00 noon (Swedish local time) on March 3, 1999 of their intention to participate.

Share registration

Volvo's share register is maintained by Värdepapperscentralen VPC AB (Swedish Securities Register Center). Only owner-registered shares are listed in the names of the shareholders in the share register. To be entitled to participate in the Extraordinary General Meeting, owners of shares registered in the name of a trustee must have the shares registered in their own names.

Shareholders who have trustee-registered shares should request the bank or broker holding the shares to request owner-registration, so-called voting-right registration, several banking days prior to February 26, 1999. Trustees normally charge a fee for this.

Notice to Volvo

Notice of intention to participate in the Meeting may be given

- by telephone to +46-31-59 00 00

• or in writing to:

AB Volvo (publ)
Legal Department
S-405 08 Göteborg, Sweden

In providing such notice, the shareholder should state:

- name
- personal registration number (where applicable)
- address and telephone number

Shareholders who desire to participate in the Meeting, must submit notice prior to expiration of the notice period, not later than Wednesday, March 3, 1999, 12:00 noon (Swedish local time).

VOLVO

COMMENT

UK bank ratings

IMV Gains
Stock Returns relative to the All-Share (CPI Index)

Year	Stock Returns relative to the All-Share (CPI Index)
1987	~100
1988	~130
1989	~100
1990	~60

Source: Credit Suisse

Investment Trusts	per (c)	Attributable Shareholders (2a)	EPS (c)	Current payment (c)	Date of payment	Corresponding dividend	Total for year	Total net year
Anglo & Overseas	Yr to Dec 31	797.7 (598.7)	10.7 (12.7)	0.38 (11.12)	8.9	Apr 25	8.5	10.9*
Dividends and Interest	Yr to Dec 31	1,189 (1,075)	0.899 (0.841)	23.6 (22.7)		Mar 11	11.1	13.5†

*Earnings shown basic. Dividends shown net. Figure in brackets are for corresponding period. †After exceptional charge. ‡After exceptional credit. §Includes currency, S.U.S. exchange and special. ¶Comparatives restated. ¶¶Increased capital. ¶¶¶Am stock. §§Euro. §§§Special of 15p (8.5p) also proposed. *Includes foreign income dividend element. †Includes special.

If any of your ADSs or shares are held in the name of a bank, broker or other nominee, please contact the party responsible for your account and direct him or her to vote FOR the bylaw amendment. You should also return your voting instruction for receipt by Citibank no later than 10:00 a.m. (New York City time) on Monday, February 22, 1999. Additional information regarding the bylaw amendment, how to vote your ADSs or shares or the terms of our offer may be obtained by calling D.F. King toll free at (800) 859-8509 or collect at (212) 269-5550.

VOLVO

TECHNOLOGY AND MANAGEMENT

TECHNOLOGY COMMERCIAL SCIENCE

Shooting for the stars

Jim Benson is a man with a mission: to design, build and launch rockets into the atmosphere – for profit. James Pickford reports

American entrepreneurs are rarely noted for their conservatism of their ambitions yet, at first sight, Jim Benson, founder and chief executive of commercial space exploration company SpaceDev, would appear to have bitten off considerably more than he can chew.

He aims to design, build and launch into deep space a series of rockets – with no government subsidy and with the promise to his shareholders of a healthy profit at the end of each mission.

The first is scheduled for April 2001. Benson plans to launch an unmanned spacecraft that will carry scientific instruments to a near-Earth, stony-metallic asteroid called 4660 Nereus. It will be the first private mission to leave Earth orbit and the instruments it carries will send back valuable scientific data; when that arrives, he hopes, so will SpaceDev's revenue.

The business case is surprisingly simple: scientists around the world, who normally lobby NASA, the European Space Agency (ESA) and other national space agencies to run missions to carry their instruments into deep space, could use their government and institutional funds to hitch a cheaper ride with SpaceDev's launch vehicle.

For instance, the current NASA Near Earth Asteroid Rendezvous mission to a nearby asteroid is costing the US taxpayer \$245m (£150m) and carries five scientific instruments. Any private mission that can retrieve data of a similar quality for less than \$50m per set is, therefore, highly attractive to those scientists and their funding bodies.

"From a business point of view I've only identified an existing

opportunity beyond Earth orbit," says Mr Benson. "We'll be tapping into a market for space science data that is already worth \$1bn or \$2bn a year."

But SpaceDev's prices for accommodating an instrument (published at www.spacedev.com), range from \$10m to \$15m. How can Benson claim to undercut NASA's costs by such a wide margin?

First, by sidestepping the tortuous bureaucratic procedures that push up the costs of any NASA-run programme.

"Every piece of technology in a government programme has to be documented all the way back to the assembly line," he explains. "You can have two or three cartons of paper for every little subsystem on the spacecraft. We don't need to do that – we can buy proven, off-the-shelf components that are good enough to get the job done and good enough to be insured."

Second, the existing, well developed market in commercial satellite launches enables SpaceDev to buy inexpensive launch vehicles that are proven and reliable (and, therefore, insurable).

Third, Mr Benson has recruited experienced engineers from NASA itself and Amstar (the Amateur Satellite Organisation), a 30-year-old organisation of volunteers that has successfully launched more than 20 satellites built in technicians' backyards.

"We are using existing off-the-shelf components, we are using commercial launch vehicles that are fully insured, thereby minimising the risk, and we are employing experienced people who have built one or more successful deep-space science missions," Mr Benson remarks.

"It doesn't require any new breakthroughs, new technology or huge R&D expenditure, despite the fact that our first project is something no one else has done."

The size of the project would seem to call for a lifetime's experience in the space industry, yet the 33-year-old Mr Benson spent the first 30 years of his working life as an entrepreneur in the computer industry. One of his start-ups, CompuSearch, marketed an early text search and retrieval programme of his own making. A second, ImageFast, sold an advanced Windows-based

'I keep hammering it home to everyone: space is a place, not a government programme'

document scanning and management system.

In 1995 he sold both companies and retired to the mountains of Colorado. "After six months of my retirement I was bored," he recalls. "So I decided to go back to business. The Internet was beginning to hot up but it just didn't inspire me. On the other hand, I have been fascinated by science, astronomy and technology all my life and that led to the idea of space commercialisation."

Mr Benson comes across as modest, articulate and, above all, sensible – a quality that is undoubtedly to his advantage, as he admits that sceptics inside and outside the space community have not been easy to convince.

The perception that space exploration is a public responsibility, not to mention a drain on public funds, is difficult to dislodge. "I keep hammering it home to everyone: space is a place, not a government programme."

Enthusiastic support from NASA, however, has strengthened his hand considerably. Its influential head, Dan Goldin, has even allocated some of NASA's "private enterprise" fund to a competitive process so university scientists can seek funding to meet SpaceDev's prices.

Eventually, says Mr Benson, scientists should be able to look at a catalogue of deep-space missions from private companies, such as SpaceDev, and choose the most appropriate one for their instrument. "The scientific community, generally, is fairly conservative but once the scientists realise what we're doing it's like a lightbulb going off above their heads. Scientists should not be forced to design missions and spacecraft, they should be allowed to be scientists."

While Mr Benson's sales patter is characterised by a rigorous sense of business realities, he occasionally betrays the fervour of the true space enthusiast. "I have my finger on the pulse of the entrepreneurial space community and I truly do believe that we're on the brink of a revolution in space commercialisation," he says.

"Twenty years ago, when I worked in the computer industry, I saw exactly what was coming in the microcomputer market but I wasn't in an economic position to take advantage of it. Now I am, I'm not going to let it pass me by."

A longer interview with Jim Benson can be found at www.fimastering.com/benson.html



TECHNOLOGY WORTH WATCHING

Fast-growing kelp provides a rich export harvest

On the face of it, the forests of giant, dark-green kelp that fringe South Africa's west coast do not seem particularly useful, writes Victor Mallet in Cape Town.

But kelp is a type of seaweed, which has an increasing number of commercial applications in cosmetics, health food and agriculture. A small South African company based in Simon's Town, the naval base near Cape Town, is using a patented technique to extract the growth stimulants in kelp for export to agricultural markets around the world.

Kelp Products says its method of bursting the kelp cells without heat, chemicals, freezing or dehydration allows it to release auxins and cytokinins – plant growth hormones – without damaging them. The result is a clear green liquid marketed as Kelpak, which is said to enhance root development, help plants absorb nutrients, promote plant health and increase crop yields.

The cells of the giant kelp *Ecklonia maxima* are burst by first putting them under extreme pressure at between 11,000 and 12,000 pounds per sq in and then releasing the pressure. But the key to the patented mechanism is that it removes the extraneous air and water that would preclude the bursting of the cells.

Kelp Products, an unlisted company which is worth about R40m, also has a traditional seaweed business. Kelp is collected from the shore and dried and milled for use in the international alginate industry, which produces binding agents for everything from food dyes to pharmaceutical products.

But it is Kelpak, more than half of which is exported, that has been behind rapid turnover growth of more than 25 per cent a year over the past decade, says Peter Friedmann, managing director.

The product needs fresh kelp, which is harvested on the south-west coast of Africa by the cold Benguela current. Kelp is one of the world's fastest growing organisms and within two years can be harvested at the same location.

Kelp Products has begun to use its technology in new lines of business. It makes a product called Earthbound – a white liquid used for binding seeds to earth embankments that need to be stabilised – by putting starches through its cellburst method.

Nanobubblepack bursts into life

A novel type of porous material – "nanobubblepack" – has been developed at Penn State Eberly College of Science. Highly versatile, it is easy to make from a wide variety of materials.

The researchers made a mould

using silica spheres, which were just 35 nanometers in diameter, according to a report in the journal *Science*. They poured in a liquid monomer – the chemical precursor of a polymer – which was processed to create a solid polymer, after which the silica spheres were chemically dissolved. The result was an ordered arrangement of spherical chambers connected by channels, which makes the material highly porous.

Maths on mines

A mathematical tool is being developed to help spot landmines from aerial pictures.

The Johns Hopkins University in the US has developed a series of complex mathematical steps that allow a computer to distinguish mines from other dark spots on the picture, such as rocks and trees. The system depends on differences in the way that rocks and vegetation reflect light. Early tests suggest a 95 per cent success rate in finding devices placed above ground.

Johns Hopkins University: tel 410 516 7160; e-mail prs@jhu.edu

Computing emotion

Computerised speech tends to sound monotonous. But US researchers have developed a computerised voice that can convey emotional states, including anger, sadness and fear.

The research at the University of Florida found that the emotions expressed in human speech were governed by factors such as pitch, volume, accent, vowel length and speed. Researchers developed a program that manipulated these factors for use in a commercially available speech synthesiser.

University of Florida: US, tel 352 392 0186; e-mail shoover@ufl.edu

Ceramic syringe

Squeezing a ceramic slurry through a computer-controlled, robotic syringe recently developed at Sandia National Laboratories at Albuquerque, New Mexico, could benefit the ceramics industry, writes Tom Mead.

Ceramics are widely used in aircraft, household appliances, computers, medical equipment and automobiles. In the process called Robocasting, a water and ceramic-powder slurry is forced through a software-controlled syringe. Layers of the slurry are precisely deposited on a heated, mobile base, building up the ceramic part layer by layer.

The tool and process has the potential for making complex ceramic parts that can be handled by existing methods. <http://www.sandia.gov/medial/robocast.htm>

Vanessa Houlder

GROWING BUSINESS LOSMA

Cleaning up with sale or return

Peter Marsh reports on an Italian manufacturer of pollution control systems which is using an unconventional method of marketing to gain a foothold in the US market

Marketing products on a sale or return basis is a strategy well known in the newspaper business – but less so in the world of high-value industrial equipment.

It is a technique that Losma, an Italian maker of pollution control systems, has developed for stepping up its sales in the US, the world's biggest market for such machinery.

Losma is one of a handful of companies worldwide that produce the specialised filters used to remove oil and other pollutants from the air around machine tools. The oil is used as a lubricant and cooling medium during the metal cutting process. Increasingly tough environmental standards have pushed the market for these fan-based filters – which cost up to \$10,000 – to an estimated \$70m a year during the 1990s.

When Losma, which was started 25 years ago by Giancarlo Losma, its owner and managing director, began efforts to expand outside its domestic market in 1990, it hit on the sale or return route as a way to build up a presence.

The efforts recently paid off with a \$200,000 order from Ruck

International, a Californian company that makes aerospace fasteners, and which bought the equipment after previously trying it out on a "free" basis.

The strategy illustrates the techniques that growing companies may have to adopt to break into unfamiliar export markets.

Losma, based near Bergamo in northern Italy, latched on to the sale or return idea after seeing it in operation at Filtermist, a UK company that is about the same

size and occupies a similar position in the world business for this kind of equipment. Each is estimated to account for about 10 per cent of the market, with the US dominated by a bigger competitor in the shape of Aerology, part of Donaldson, a Minneapolis-based industrial company.

"The sale or return technique can be a risk but it's a way of introducing ourselves to customers and demonstrating that we have faith in the product," says

Mr Losma. "We find that 98 per cent of the companies that try out the equipment on this basis decide to buy it."

Helped by the success with Ruck, which is part of Cordant Technologies, a US aerospace concern, Losma gained US sales last year of \$800m (about \$500,000), out of total revenues of \$1.25bn.

It hopes to increase sales in this part of the world fourfold by 2000, as part of a strategy to develop the company as a whole to sales of some \$400m by 2003, of which only about a third would come from customers based in Italy. Of last year's revenues, just less than half came from exports – with the most important markets being Germany and the UK. Losma's efforts to expand in the US are supported by a New Jersey-based group called the Italian Technology Association. This is a joint marketing effort for 15 Italian companies, mainly in machine tools and related technologies, which Mr Losma helped set up in 1992 as a way to reduce the costs of launching a US presence.

The association has about 20 staff handling sales and service activities on behalf of all the



Giancarlo Losma: building up a presence through sale or return



JOHN KAY

A takeover that missed the marque

BMW is in a pickle over Rover because it has lost sight of the industrial logic which established it as a remarkable post-war success

The history of BMW is as chequered as its blue-and-white badge. Blue and white are the colours of the state of Bavaria, where the company was founded more than 80 years ago. For the first half of its life, BMW was mainly a manufacturer of aircraft engines. Its powerful motorbikes were also sought after and it ventured into cars by manufacturing Austin Sevens under licence.

To be Germany's leading aero-engine maker in 1945 was about as unfavourable a strategic position as any company has ever suffered. BMW's plight was still worse, since its main production facility, at Eisenach, was just over the border in the Soviet occupation zone.

The post-war recovery of German industry from the desolation of 1945 is still termed an economic miracle. There was no miracle for BMW, however. The company drifted, producing bubble cars (the Gogomobile) – not as much fun as those of its Italian rivals, – and limousines less stylish than those built by its German competitors. In 1959 BMW, on the brink of

bankruptcy, seemed destined to be absorbed by Mercedes-Benz. But after one of the longest and most extraordinary annual meetings in corporate history, Herbert Quandt emerged as BMW's dominant shareholder. The Quandt family still owns about half the stock.

BMW was planning its 1500 model when Quandt took control. Launched in 1952, the 1500 established a new segment in the car market: the quality production saloon. Positioned between the mass production car and the craftsman-built output of the luxury producers, it was a niche BMW was almost uniquely placed to fill. It drew on its ability to develop and use technical skills in a production line workforce – the source of competitive advantage for many German companies.

Over the next two decades, BMW developed this market and established the BMW brand with all the associations it retains today. It exemplifies two characteristics of powerful brands: quality certification and signalling. BMW cars have a reputation for build, reliability

and low depreciation. And ownership of a BMW is a personal statement – more stylish than a Volkswagen, more raffish than a Mercedes-Benz.

BMW proved to be one of the great success stories in modern business history. What we learn from it is the foundation of all successful corporate strategy – the match between the organisation's distinctive capabilities and the market opportunities it faces. That was what BMW, after many false starts in the 20 years after the war, finally achieved.

BMW's competitive advantage was bound to come under pressure. The quality of its production line engineering ceased to be a distinctive capability not because it declined but because other producers emulated it. Part of BMW's success was the development of a more enduring source of competitive advantage, the engineering quality.

So what should BMW have

done? Strategy means understanding your distinctive capabilities and identifying markets where they can be turned into competitive advantages. The company was right to consider a move back into aero-engines, which reflected its (German) engineering capabilities and, to a limited degree, exploited its brand.

It was right to plan its production facility in South Carolina because that developed the brand in America. While too early to judge these ventures, they have strategic coherence. But instead of pursuing the logic of its historic success – matching market to competitive advantage – BMW became a victim of the bland clichés of management jargon. It announced it was a supplier of mobility, rather than a maker of cars, bikes and aero engines.

There is a profound misunderstanding here. The relevant links between these products are not that they are all means of getting around but that they all use BMW's engineering skills and brand.

More seriously, it fell for conventional, but loose, ideas on the importance of size and scale: ● BMW was too large to be a

niche manufacturer, too small to be a volume producer – as if failure to fit into the boxes of a consultant's slide presentation reflected a strategic problem.

● "BMW needed to achieve critical mass to be one of a handful of global players" – as if Rover itself had not demonstrated that size is no competitive advantage. And Bernd Pischetsrieder's plan for positioning Rover was to move it up market into a competitor for BMW itself. This strategy was doomed to fail.

A student of Herbert Quandt would doubtless ask how BMW's competitive advantages – the quality of the workforce in its production facilities (in Germany), the power of its brand – were to be effectively deployed in managing Rover? He would have concluded that they were not relevant if Rover was to go on producing in the UK and trade under its own marque. By pointing that out, he would have saved his teacher's family several billion marks.

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.

EQUITIES

Falling prices bring oil stocks in focus

By Khazam Merchant

Euro-zone markets remained cautious, taking their cue from Wall Street. But falling commodity prices brought oil stocks into sharp focus amid predictions that the outlook for the petroleum majors remains uncertain.

London Brent crude futures were trading below

\$10 a barrel for the first time since December, forced down by a global surplus of crude stocks. The International Petroleum Exchange's April Brent contract fell as low as \$9.90 a barrel, just shy of a 12-year low of \$9.55 recorded late last year. In late trade it clawed back to \$10.

Some analysts were optimistic that even in the face of falling oil prices, the big oil producers would

"weather the storm" because of their radical restructuring. But others insisted restructuring would not be enough. "This is more than about restructuring; oil majors are facing significant margin erosion," said Mark Demis at ABN Amro.

Oil giant BP Amoco announced final-quarter profits down from a year earlier but at the top end of

forecasts. Its share price fell \$2 to \$12.23. Royal Dutch slipped again, falling \$1.1 to \$37.4.

"The uncertainty is likely to extend beyond commodities and hit all industrial cyclical," said Mr Demis.

"The cyclical are facing worsening industrial price expectations at a time the consumer will not necessarily accept higher prices."

Defence stocks were active

after the latest twist in the restructuring of the European defence sector. Aerospace received the go-ahead this week to merge with the Matra defence arm of the missile-to-media Lagardere group. Lagardere's share price slipped \$1 to \$37.4.

After the BAE and Marconi link-up, this latest realignment leaves Thomson-CSF, the French electronics group, even more isolated.

Thomson's share price slipped \$3 cents to \$28.75.

The FTSE Eurotop 300 index of leading European shares ended 11.98 or 0.98 per cent lower at 1,187.51, while the FTSE Eurotop 100 index shed 28.08 to close at 2,747.64.

The FTSE Etilco 100 index of shares in euro-zone companies also ended down 15.51, at 976.21. The oil and gas sector slipped 3.04 per cent while the mining sector fell 4.02 per cent.

FTSE Etilco 100

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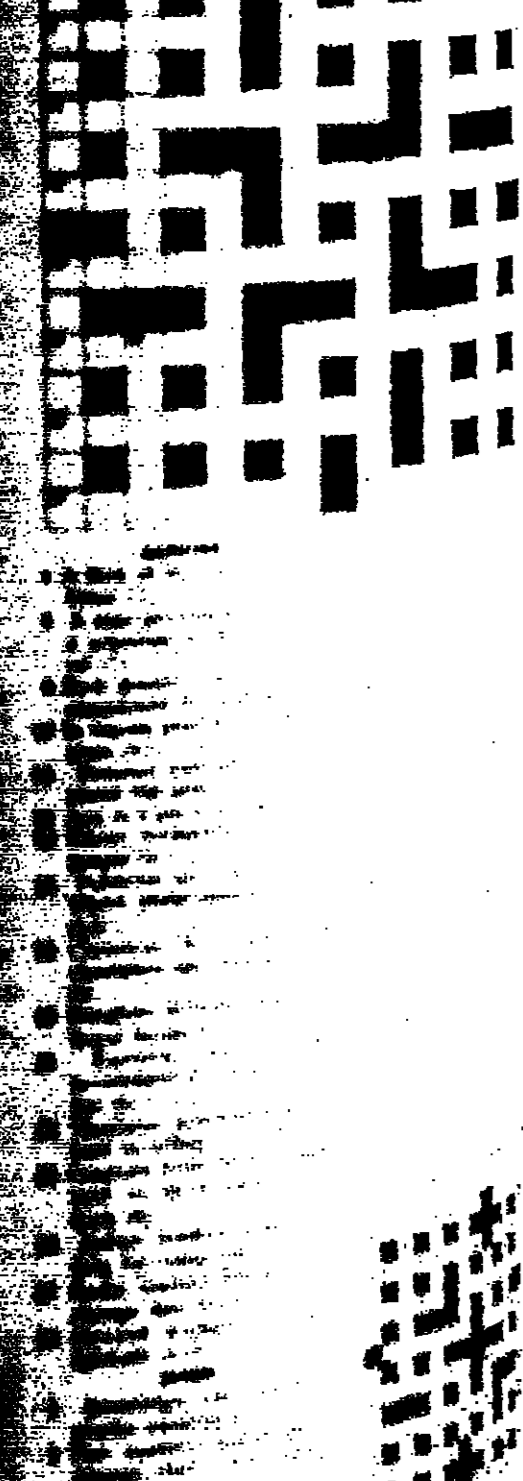
Nov 2018

India to rely more heavily on oil imports

The best way to analyse Europe's market by sector is precisely

STOCK

CROSSWORD



FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

BERMUDA (REGULATED)**

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

CAYMAN ISLANDS (REGULATED)**

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

GUERNSEY (FSA RECOGNISED)

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

GUERNSEY (REGULATED)**

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
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Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

IRELAND (FSA RECOGNISED)

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

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Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

CANCER HITS 1 IN 3.

GIVE YOUR WORKFORCE A CHANCE TO FIGHT BACK.

It is a fact that one third of the people in the UK will get cancer at some point in their lives. Cancer touches the lives of every one - employer and employees alike. Join the Macmillan Nurses in the fight. Telephone 0181 222 7706, or cut out this ad and return it to: Corporate Development Manager, Macmillan Cancer Relief, 3 Angel Walk, London W6 9HX.

Name _____

Company Name _____

Telephone _____

Registered charity number 204877

Macmillan cancer relief

IRELAND (FSA RECOGNISED)

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IRELAND (FSA RECOGNISED)

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

IRELAND (FSA RECOGNISED)

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

IRELAND (REGULATED)**

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

IRELAND (FSA RECOGNISED)

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

IRELAND (REGULATED)**

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

IRELAND (FSA RECOGNISED)

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

IRELAND (REGULATED)**

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

IRELAND (FSA RECOGNISED)

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Asia Fund	£10.5m	1.00	0.00	0.00	0.00	0.00

IRELAND (REGULATED)**

Fund Name	Assets	NAV	YTD	1Y	3Y	5Y
Admiral Europe Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral Japan Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral US Fund	£10.5m	1.00	0.00	0.00	0.00	0.00
Admiral World Fund	£10.5m	1.00	0.0			

FT MANAGED FUNDS SERVICE

● FT Cyteline Unit Trust Prices are available over the telephone. Call the FT Cyteline Help Desk on (+44 171) 873 4378 for more details.

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INVESTMENT TRUSTS - Continued

Company	Price	Yield	Volume
Monmouth V	100.00	10.00	100.00
Mon Atlantic Corp	100.00	10.00	100.00
Chas L. 1973	100.00	10.00	100.00
Monmouth V	100.00	10.00	100.00
Old Atlantic SA	100.00	10.00	100.00
Monmouth	100.00	10.00	100.00
Pacific Assets	100.00	10.00	100.00
Sears & Roebuck	100.00	10.00	100.00
Pacific National	100.00	10.00	100.00
Monmouth	100.00	10.00	100.00
Pacific Nat	100.00	10.00	100.00

Procter & Gamble	122 1/2	1 1/2	1 1/2
Procter & Gamble	122 1/2	1 1/2	1 1/2
Procter & Gamble	122 1/2	1 1/2	1 1/2
Procter & Gamble	122 1/2	1 1/2	1 1/2
Procter & Gamble	122 1/2	1 1/2	1 1/2

[illegible]

Small Select (2) 5	4	121	2	1	5
Small Select	4	34	2	1	5
Excess & Exempt A10		100			

[illegible]

HV TRUSTS SPLIT CAPITAL

[illegible]

Zero One P/T	54	...	52
Frederic Scott Inc.	35	...	41
...

Don Draper	2017	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	9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to Day Prod	761	107
for Extra Inc	1,001	78

[illegible]

$\frac{1}{2}$



Interactive Investor

HEALTH CARE - Continued

Notes		Price
Cable Ind.		152
Commodity Index		402
Credit Index	2.2	28.2
Exec. Salaries		74.9
Expenditures		14.4
Foreign Products		158.7
Gasoline		181.9
Glass Encls.		171
Highly Hinged Ind.	2.1	230.5
Highly Hinged Ind.	2.1	230.5
Imports		57.5
Imports		25.2
London Ind.	7.1	137.0
Manufacturing		487.1
Merchandise		10.1
Petroleum: AS		97
Refined		5
Sales Index		854.7
Standard Deviations		137
Stocks: Woburn		175
Stocks: High		175
Tariffs		280
Travel Life Sacs		12
Travel Drug		50.8
Weather: France		188.2

HOUSEHOLD GOODS &

	Notes	Price
--	-------	-------

Aspenbury	889
Albion	825
Alexander	1272
Allied Trade	118
Aquarius	221
Armenia Trust	85
BLP	51
Band (Nat)	51
Black Pw	84
Black Mt	283
Black Star	81
Calderwood	56
Churchill Court	57
Circle Wines	30
Colonial & F	73
Corneal Parker	85
Courtside Ford	155
Craighead	8
Dalyville	21
Danson Inc	17
Deanes	21
Derry	81
Dynastrol	85

14
 20
 12

[illegible]

INSURANCE

Notes	Price	+
garz DIN	819.12	-6
ted Zurich	882.4	-
erican San US\$	860.1	-3
erican Int US\$	886.5	+13
ile	763	-
eramics	177.5	-15
US\$	238.1	+6
ion Underwriting Jtr	748.5	-
ield & Pce	128	-
lock	39	-
U	584.5	+15
ine Taylor	211.5	-
ducer	712	-
eramics	89	-14
Insurance	161.5	-
	36.5	-

Man & God

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LONDON STOCK EXCHANGE

Footsie pauses after four-day winning streak

MARKET REPORT
By Steve Thompson,
UK Stock Market Editor

The big domestic and international institutions stood back from London and most of the other big European equity markets yesterday, preferring to wait and see how Wall Street digested the recent batch of important corporate news reports from the US.

In the event, Wall Street's response yesterday to fourth-quarter figures from Dell and Hewlett-Packard, released on Tuesday, was

initially bearish, driving the Dow Jones Industrial Average and other US indices lower.

"For us in London and the rest of Europe it was mostly a waiting game for Wall Street," said one dealer. The Dow had disappointed overnight, finishing 22 points up after being more than 100 points higher. The US market dipped off at the start yesterday before making rapid progress after London closed.

After four winning sessions, the FTSE 100 suffered from persistent pockets of profit-taking, which drove

the index down to a session low of 6,040.7, down 67.9.

A late rally took it back briefly into positive ground only to see the leaders drift off again and leave the Footsie 30.2 lower at 6,078.4.

Second-liners were also put under pressure, the FTSE 250 sliding 26.4 to 5,174.5. The small-caps, which have struggled during the stunning upside performance of the leaders over the previous four sessions, continued their rather sedate progress. The FTSE SmallCap index moved up 2.4 to 2,350.5, its fifth consecutive gain.

The minutes of the February meeting of the Bank of England's monetary policy committee, after which rates were cut by 50 basis points, revealed that eight of the members voted for a 50 basis points reduction and one, Willem Buiter, a former hawk, for 75 basis points.

The discussion revealed in the document that rates had only just moved into neutral territory was interpreted by some as a signal that rates may fall further in coming months. A small fall in unemployment did not seem to dent that view on rates.

The banking sector, which

was widely seen as the catalyst for the stock market's recent revival after good results from Lloyds TSB and reassuring figures from Barclays, remained in the forefront of investors' attention with Woolwich announcing a 15p a share special dividend.

Dealers insisted there was never any real downside pressure being exerted on the London market, a view reinforced by the relatively low level of activity in the market yesterday.

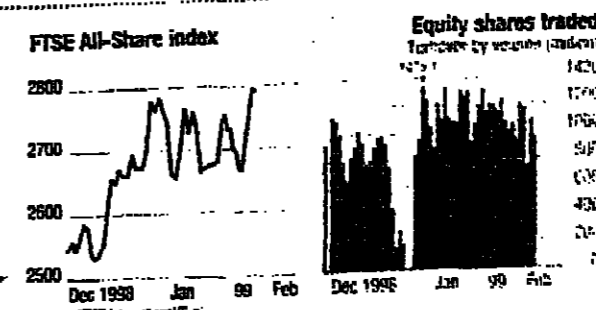
Turnover at 8pm was 966m shares, with volume in the FTSE 100 constituents

accounting for 55 per cent of overall business.

However, the level of business in the market in recent weeks has been highly encouraging.

POST, the dealing system which matches buy and sell orders for institutional clients in the London market, and which offers anonymous and low-cost dealing, claimed a 1.5 per cent share of business in the UK market and business worth £13.7bn during its first three months of trading.

POST is jointly owned by ITG of the US and Société Générale of France.



Equity shares traded
Turnover by sector (million)

Sector	Turnover
FTSE 100	1,200
FTSE 250	1,000
FTSE All-Share	1,500
FTSE 100	1,200
FTSE 250	1,000
FTSE All-Share	1,500

Indices and ratios

Index	Value	% Chg
FTSE 100	6,078.4	-30.2
FTSE 250	5,174.5	-26.4
FTSE All-Share	5,723.4	-15.9
FTSE 100	6,078.4	-30.2
FTSE 250	5,174.5	-26.4
FTSE All-Share	5,723.4	-15.9

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIVER) £10 per full index point

Month	Open	Settle	Change	High	Low	Vol	Open Int
Mar	6078.0	6078.0	-10.0	6100.0	6040.0	1,200	1,200
Jun	6078.0	6078.0	-10.0	6100.0	6040.0	1,200	1,200
Sep	6078.0	6078.0	-10.0	6100.0	6040.0	1,200	1,200

LONDON RECENT ISSUES: EQUITIES

Issue	Amount	Latest price	1998/99	1999/00	1999/00	1999/00	1999/00
BP	150	100	100	100	100	100	100
BP	150	100	100	100	100	100	100
BP	150	100	100	100	100	100	100

RIGHTS OFFERS

Issue	Amount	Latest price	1998/99	1999/00	1999/00	1999/00	1999/00
BP	150	100	100	100	100	100	100
BP	150	100	100	100	100	100	100
BP	150	100	100	100	100	100	100

FTSE GOLD MINES INDEX

Index	Value	% Chg
FTSE Gold Mines Index	1,200	-10.0

The UK Series

Index	Value	% Chg
FTSE 100	6,078.4	-30.2
FTSE 250	5,174.5	-26.4
FTSE All-Share	5,723.4	-15.9

Trading Volume

Index	Value	% Chg
FTSE 100	6,078.4	-30.2
FTSE 250	5,174.5	-26.4
FTSE All-Share	5,723.4	-15.9

United roadshow gives lift

COMPANIES REPORT
By Peter John, Joel Kibzozo
and Simon Barnhill

United News & Media was one of Footsie's best performers following a road show at which the newspaper and television group promised great things.

The shares rose 29% to 629p after the group vowed to achieve double-digit revenue growth over the next three years.

The group also said it would establish operating margins that ranked with the best UK media groups.

But there was some scepticism. One sector specialist said: "If they couldn't achieve it in the last eight years when inflation was raging, the US economy was powering ahead and technology was boosting the industry, why should they achieve it now?"

Nevertheless, the stock was almost on a government bond yield parity at the start of trading, even though it is in a highly-rated sector, and the market was prepared to give the company a chance to prove itself.

A broker's recommendation for food and drinks group Cadbury Schweppes refocused attention on the attractions of the stock and

helped the shares buck the poor market trend.

Just a week before the company publishes full-year figures, Merrill Lynch raised its recommendation from "accumulate" to "buy".

The shares jumped 51 or 5.37 per cent to £10.01, the best performer in the FTSE 100. Volume was 4.1m.

Merrill Lynch said the shares had further to rise and restated its near-term share price target of £11.35.

Cadbury is in the process of selling its non-US beverages unit to Coca-Cola and Merrill indicated it would be disappointed if the group did not make any announce-

ments in the coming months about returning funds to shareholders. "We believe this will reduce the cost of capital," said the broker.

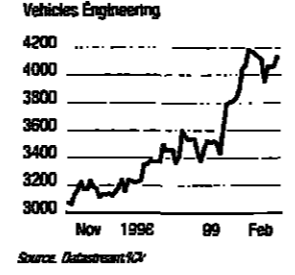
Merrill expects Cadbury to report profits of £600m, against £575m (excluding exceptional) last time.

Figures from BP Amoco, the UK's biggest company, were at first glance at the top end of forecasts.

But the oil major was unable to compete with an underlying oil price that dipped below \$10 a barrel.

And questions at the analysts' meeting highlighted the fact that it was slipping down the league table in

Best and worst performing FTSE sectors



terms of return on capital. John Toalster, at SG Securities, said it had been "firmly knocked off its pedestal as top performer".

And Liz Butler, pointing out that the sliding returns were a pure reflection of the merger, said: "I don't doubt they will get it right on the day. I just worry that the day might be two years away. They're going into choppy waters with a share price that is too high."

BP Amoco ended the day 18p lower at 840p while Shell Transport dribbled away 8p to 319p.

British Airways put on 13p to 429p as Morgan Stanley Dean Witter published a positive note on the stock, upgraded its recommendation and also set a new price target for the stock.

Martin Borghetto at the broker admitted short-term trading conditions were still tough, but countered: "The valuations at these levels are appealing particularly as there are indications of healing in the global economy."

Upgrading its recommendation from "outperform" to "strong buy", Morgan

Stanley set a new 12-month share price target of £35p and said it believes that "medium-term potential should exceed this".

There was talk of a big buyer in the market for engineering group GKN. The shares appreciated 31 to 876p.

Bae under fire

Two-way business in British Aerospace brought volume of 8.6m as the shares hardened 1p to 430p.

The recent news that Saudi Arabia was postponing its planned artillery acquisition programme because of the kingdom's financial problems has started weighing heavily on the minds of several brokers.

One sector specialist said: "The fear is for the Al-Yamamah defence equipment contract with the UK. Saudi Arabia may consider scaling it back."

British Aerospace earns between £1.5bn and £2bn in sales from the contract each year.

Woolwich perpetuated the positive trend in the banking sector as it came out with profits near the top of the range of analysts' forecasts and a special dividend. Having returned £236m to shareholders, Woolwich also said it would continue with its share buy-back programme.

The shares rose 19p to 384p while Alliance & Leicester, which reports next week, gained 42p to 886p.

WPP, the media services

group, fell 18p to 464p in spite of a 20 per cent boost to earnings and 10 per cent revenue growth. The numbers were in line with forecasts and had been well flagged in the weekend press.

Carpet retailer Allied Carpets retreated 5p to 38p after the company reported a disappointing January sale and a sharp decline in interim profits.

One retail sector specialist said: "The misery is likely to continue particularly because of the growing popularity of wood flooring."

The day's worst performer in the FTSE 100 was Railtrack Group which yesterday launched its first exchangeable bond. The shares declined 7p to £14.59.

Railtrack will receive around £400m from the 10-year bond issue which will allow holders to convert the bond into company shares at an indicated premium of about 25 per cent.

British Biotech continued to decline towards its cash valuation, closing down 2p to 21p.

IOC International, the AIM-listed components company, rose 10p to 59p after Newton Investment Management upped its stake to 3.8 per cent. The £32m price exceeded most expectations.

Pubs group Stag and Lettice fell 22p to 160p after announcing poor interim figures. It also said full-year results would be lower than expected.

Recruitment group Reed Executive rose 19p to 100p and Plasmion, the electrical equipment manufacturer, rose 11p to 103p as brokers reported a surplus of demand for both stocks.

Leicester City rose 5p to 42p after reports in a local newspaper of a possible bid for the company. The football club said no formal approach had been made.

AB Airlines fell 12p to 35p after announcing a major restructuring.

European Community Newspaper.

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FINANCIAL TIMES
No FT, no comment.

Source: 1998-99

FTSE Actuaries Share Indices

Produced in conjunction with the Faculty and Institute of Actuaries

Index	Value	% Chg
FTSE 100	6,078.4	-30.2
FTSE 250	5,174.5	-26.4
FTSE All-Share	5,723.4	-15.9

FTSE Actuaries Industry Sectors

Index	Value	% Chg
10 REINSURANCE(10)	3,000.0	-10.0
12 REINSURANCE(12)	3,000.0	-10.0
15 REINSURANCE(15)	3,000.0	-10.0

The UK Series

Index	Value	% Chg
FTSE 100	6,078.4	-30.2
FTSE 250	5,174.5	-26.4
FTSE All-Share	5,723.4	-15.9

Hourly movements

Index	Value	% Chg
FTSE 100	6,078.4	-30.2
FTSE 250	5,174.5	-26.4
FTSE All-Share	5,723.4	-15.9

Time of FTSE 100: 15:00. Daily High: 15:10. Daily Low: 15:00. FTSE 100: 15:00. FTSE 250: 15:00. FTSE All-Share: 15:00.

Further information is available on <http://www.ft.com>.

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Market Changes: Market is now Germany.

FTSE
INTERNATIONAL

FTSE 100: 6,078.4. FTSE 250: 5,174.5. FTSE All-Share: 5,723.4.

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STOCK MARKETS

Profit fears and pay talks restrain Europe

WORLD OVERVIEW

European bourses grabbed the stock market limelight yesterday as activity in Asia and the US seemed subdued, writes Philip Cogan.

Chinese New Year celebrations kept trading thin in the Asian markets, with Tokyo dribbling 0.5 per cent lower. Meanwhile, some weaker-than-expected sales at technology stalwart Dell caused only a brief wobble on Wall Street in early trading.

European markets were in negative territory for much of the day, both Frankfurt and Paris fell around 1.5 per cent.

The German stock market was unsettled by a newspaper report that Deutsche Telekom expected a fall in 1999 profits, and by slow progress in the talks between the engineering union IG Metall and the employers' association.

Agreement on too high an increase would upset the

bond markets and reduce the chances of further rate cuts from the European Central Bank, which meets today.

The recent weakness of the euro relative to the US dollar has not had the kind of reviving effect on European bourses in 1999 that investors might normally have expected.

Concerns about the outlook for European corporate earnings at a time when most markets trade on price-earnings ratios that are

well above 20 seem to be restraining investor confidence.

The strategy team at Credit Suisse First Boston says: "Year-on-year changes in the DM (now euro)/dollar rate have typically been a good lead indicator of the direction of earnings estimates within Europe."

"In order for earnings forecasts to catch up with currency movements during 1998, we still need to see further downgrades from analysts."

Our own top-down earnings forecasts for Europe ex-UK are 8.3 per cent for 1999 and 8.7 per cent for 2000.

"However, a weaker euro gives us confidence that we will see a floor for European earnings estimates."

According to IBES International, the information group, current analysts' forecasts predict higher earnings growth in 1999 (11.6 per cent) than in 1998 (10.2 per cent).

But IBES says this seems unlikely, given analysts' tendency to begin the year with overly bullish forecasts.

"Forecasted earnings growth rates are already in single digits for Finland, Ireland, Belgium and the Netherlands."

"With these four countries starting 1999 with such a low growth forecast, it's likely that their forecasted earnings growth will drop into negative territory later this year," says IBES.

EMERGING MARKET FOCUS

Updated systems enhance Cairo

Hopes for a faster pace of privatisations and initial public offerings from family-owned Egyptian companies rose yesterday with the announcement that the Egyptian Stock Exchange had inaugurated its automated trading, clearance, settlement and surveillance systems.

Key to attracting the private sector to the market has been the need to ensure companies that the ESE is capable of overseeing a high volume of trade while ensuring transparency.

A steady rise out of the end-of-year doldrums has in the past month reinvigorated the exchange after almost eight months in which shares declined 32 per cent before levelling out late last year.

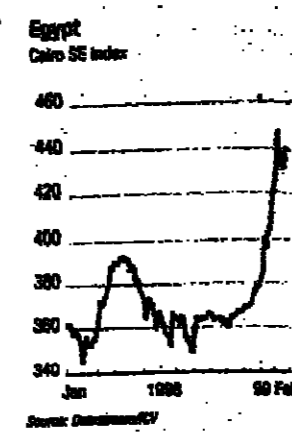
Since mid-December, the CMA index has risen 60 to 439.8. Although activity has slowed, except in the market for leading banks, Egypt is now regarded as one of the most attractive emerging markets.

The ESE has been equipped with automated trading, exchange management and on-line and off-line surveillance capabilities that are expected to greatly bolster confidence in the institution.

The system will have a central depository function, allowing auditing and logging of accounts to validate accounts and prevent short-selling by brokers. It is expected the clearing and settlement system will become the platform for regional standards, the intention being to create permanent links between the ESE and regional exchanges.

"This system enhances the liquidity, fairness and transparency of the system," said Sameh Torgoman, chairman of the exchange.

"It will give us a strong back-office capability and equip us with a strong risk-management system. With this advanced surveillance



system, we are able to identify risk and freeze trades if necessary."

The new system is expected to be working within two months, though adaptations will go on as the market develops. The installation is a major first step in the development of the ESE launched by Mr Torgoman's predecessor, Sherif Raafat, when he took over as chairman in 1997.

However, the ability of the exchange to function as an automated system relies for its success on the introduction of technology throughout the capital market, and in particular the upgrading of telecommunications and the creation of a data depository that would allow the tracking of patterns of behaviour by the market and by ESE members.

While its first priority is to increase Egyptian investors from 500,000 to 3m, ESE also aims to enhance the co-ordination of regional exchanges to aid region-wide trade and dual listings.

"We hope with this system we will play a leading role in the region, as there are many countries which have advanced sales systems like this one," Mr Torgoman said. Exchanges in Bahrain, Riyadh, Abu Dhabi, Beirut and Kuwait can in theory be connected.

Mark Hubbard

Tech concerns Paris falls through 4,000 weigh heavily on Wall Street

AMERICAS

US equities were mixed at midday. Blue-chip shares managed to shake off a morning downturn, but the computer sector stayed weak, weighed down by concerns about Dell Computer and Hewlett-Packard, writes John Labate in New York.

By early afternoon the Dow Jones Industrial Average had gained 65.05 or 0.7 per cent at 9,362.08. The broader Standard & Poor's 500 index was 6.98 higher at 2,302.34. Despite the pick-up in major sectors, market breadth remained negative, with declining shares running ahead of advancing ones by a margin of 14 to 13 on the NYSE.

The main story in the market was the release of earnings results from Dell Computer, which posted slower-than-expected revenue growth. Dell's shares fell nearly 10 per cent in early trading but recovered a bit by early afternoon to trail 7 1/2 or 8 per cent at \$81 1/2.

Computer maker Hewlett-Packard, which also reported its results after the market closed on Tuesday, fell 3 1/2 or 5 per cent to \$69 1/2.

The Nasdaq composite index stayed lower into afternoon trading, down 11.53 or 0.5 per cent at 2,302.34. The Russell 2000 index of small company shares also fell back, down by less than 1 point to 395.59.

Semiconductor producers were stronger, with Intel up 1 1/2 to \$127 1/2 in anticipation of the release of its new Pentium III chip. Texas Instruments climbed 4.3 per cent or \$3 1/2 to \$86 1/2.

In the telecoms sector, Lucent Technology rose 1 1/4 to \$99 1/2 after it announced a

stock split. Elsewhere, BellSouth and networking company 3Com announced a new alliance aimed at the high-speed Internet market. Investors gave the deal a mixed reception, sending BellSouth down 33 or more than 6 per cent to \$46 1/2 while 3Com gained 1 1/2 to \$34 1/2.

Medical device producer Medtronic was the most heavily traded stock on the NYSE by midday, down 5 1/2 to \$76 1/2 one day after the company issued financial results from a recent merger.

Transport shares were mostly higher, with Delta Air Lines up 2 1/2 to \$55 and US Airways gaining 1 1/4 to \$46. But Trans World Airways tumbled more than 5 per cent to \$5 1/2 after the company reported a loss for the fourth quarter.

TOBACCO pushed higher, but broad sentiment was held in check by weak resource stocks, notably oil and gas.

Worries about international oil prices after the latest dip below \$10 to the barrel sparked selling among oil. PanCanadian Petroleum shed 30 cents at \$315.50 and Imperial Oil came off 35 cents at \$28.

Golds also met with selling. Among metals, Barrick gave up 30 cents at \$28.30 and Placer Dome shed 25 cents to \$317.30. Teck Corp dipped 5 cents to \$51.25.

The main upside features were found among banks. Royal Bank of Canada advanced \$1.45 to \$78.10 and Bank of Montreal rose \$1.15 to \$94.65. Bank of Nova Scotia added 25 cents to \$31.70.

At the noon count, the 300 composite index was up 7.32 at 6,388.80.

Bovespa plays catch-up after Carnival holiday

SAO PAULO returned from its two-day Carnival holiday in upbeat mood, sending the benchmark Bovespa index up 113 or 1.3 per cent at 9,065 at midsession.

"Its catch-up time. Volumes are not great, but everybody's watching the gains on Wall Street," said one trader.

MEXICO CITY reversed initial losses as early profit-taking after Tuesday's 1.4 per cent advance gave way to renewed buying. Brushing

aside a softer tone in the foreign exchanges for the peso, the IPC index put on 20.94 at 4,178.98 by midsession.

CARACAS fell steeply as investors sold heavily in the face of weak international oil prices. At midsession, the IBC index was down 132.23 or 3.2 per cent at 3,965.89, a fresh low for the year.

SANTIAGO was little changed in low trading volumes at midsession. The IPSA index eased 0.07 to 110.82.

EUROPE

A disappointing performance on Wall Street and weakness in defence stocks dragged PARIS 1.7 per cent lower, with the CAC-40 ending below the 4,000 mark at 3,985.49, down 66.83.

Lagardère lost €1.02 at €37.48 while Thomson-CSF, down 53 cents or 2.7 per cent to €29.75, suffered as the planned merger of Aerospaced and Lagardère's defence arm Matra threatened to leave CSF isolated.

Oil stocks lost ground on weak oil prices before gaining ground in late trading. Total recovered from a €92 low to close €1 lower at €93.50 while Elf-Aquitaine lost 90 cents to €91.50.

Eurotunnel shed 9 cents or 6.8 per cent to €1.24 - following a 17.7 per cent rise on Tuesday - as takeover speculations subsided.

Slightly better-than-expected 1998 results, published on Tuesday, did little

The FTSE Europe 300 index fell 11.90 or 0.98 per cent to 1,197.51. See Euro Prices page.

to prop up electrical equipment group Legrand, which closed €6.90 lower to €190.10.

Among the day's gainers, CCF continued to thrive ahead of the sale by Mutuelles du Mans of its 7.6 per cent stake in the bank, climbing €1.25 to €81.80.

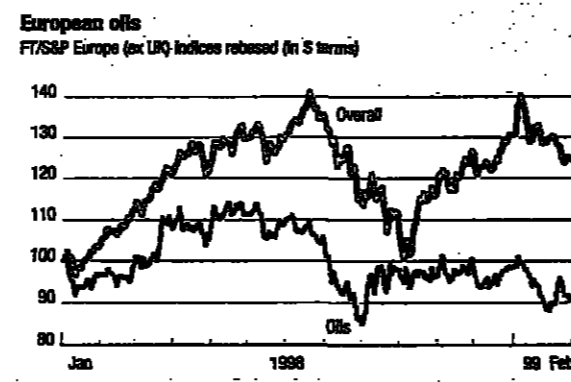
FRANKFURT clawed back heavy early losses, and the Xetra Dax index, down 124 points at one stage, ended 74.69 lower at 4,820.42.

Deutsche Telekom, under regulatory pressure recently, fell steeply on a press report that its profits performance in 1998 had been far from resilient. The shares, the largest single component within the index, ended off €1.47 at €36.20 after touching a session-low of €35.52.

Deutsche Bank lost €1 at €47.95 despite a stronger-than-expected results statement suggesting net earnings for last year could have been well ahead of the consensus of broker forecasts.

Unsettled by a European Union probe into banks' foreign-exchange fees, Dresdner lost 88 cents at €22.60 and Commerzbank 23 cents at €25.09.

The all share index, which touched a session low of



European oils
FTSE Europe (ex-UK) indices released (in 5 mins)

Volks, caught in a cross-fire between rising European car market share in January and worries about engineering strikes, came off €1.34 at €64.11. Diversified telecoms group Mannesmann, which puts out annual figures today, gave up €3.18 at €113.30.

Machinery group Klockner-Werke jumped €1.5 to €82.50 on strong four-month results. Fashion group Hugo Boss hardened €20 to €1,200 ahead of tomorrow's results statement.

AMSTERDAM moved lower for a third session, dipping 8.89 or 1.7 per cent to 514.15 on the AEX index, with heavy falls among financials and a shakeout at Royal Dutch leading the market lower.

Telecoms leader KPN lost the day's heaviest casualty, falling €1.70 or 3.7 per cent to €44.70. Also Nobel came off €1.20 at €36 and Royal Dutch, hurt by weak international oil prices, finished €1.10 lower at €37.40.

Disappointing final-quarter results from US technology benchmark Dell Computer and the subsequent early slide for the shares on Wall Street, hit both Philips and ASM Lithography.

The former shed 50 cents at €61 while ASM, off €2.75 at one stage, ended 75 cents lower at €40.15.

ZURICH ended positive after a late rally with the SMI index improving 30.7 to 7,045.9.

Extending recent gains following a \$650m US acquisition, CS Holding rose a further SF3.25 to SF232. UBS ended SF2.50 to SF461.

Foods leader Nestlé was

5,807.9, clawed back to close at 5,871.3, down 25.5. "It's a good budget. It shows a commitment to fiscal discipline," said one broker.

Financials lost 32.7 at 8,997.0 and industrial shares finished down 18.6 at 6,681.2. Golds hardened 0.6 at \$32.6.

Tax cut fuels Jo'burg rally

SOUTH AFRICA

Johannesburg rallied strongly in the fading minutes after the South African budget brought news of a cut in corporate tax.

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5,807.9, clawed back to close at 5,871.3, down 25.5. "It's a good budget. It shows a commitment to fiscal discipline," said one broker.

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Weak yen drags Tokyo lower

ASIA PACIFIC

Falling long-term interest rates and a weakening yen caused TOKYO to lose its momentum and the market moved lower for the first time in six trading days, writes Naoko Nakamae in Tokyo.

The benchmark Nikkei 225 Average fell 0.5 per cent or 78.97 to 14,158.67 after trading between 14,407.33 and 14,146.64 during the day.

Other indices were also little changed, with the weighted Nikkei 300 index losing 0.4 per cent or 0.85 at 219.00, while the broader Topix index of first-sector stocks fell 4.60 to 1,097.08. Volume was moderate at 400m shares, with 729 issues declining and 361 rising.

But exporters' shares were buoyed by the weaker yen. Mitsubishi Motor jumped 5.7 per cent or ¥20 to ¥371, while Bridgestone rose 4.1 per cent or ¥100 to ¥2,566. Canon climbed 4 per cent or ¥100 to ¥2,600. Sony gained 2.8 per cent or ¥240 to ¥8,840, and Fuji Photo Film rose 2.6 per cent or ¥110 to ¥4,300.

The banking sector was



Rio Tinto
Share price (p)

tumbled 28 cents or 1.4 per cent to \$19.28 on the news of price cuts for iron ore shipments to Japan. BHP lost 20 cents at \$11.60.

However, financials remained firm. Westpac added 31 cents at \$10.58 and Lend Lease gained 53 cents to \$20.44. Telecoms giant Telstra rebounded 26 cents or 3.3 per cent to \$88.47. At the close, the All Ordinaries had clawed back to 3,883.2, up 23.28 and within 7 points of its session high.

WELLINGTON pushed ahead strongly on bid news and positive third-quarter results from market heavyweight NZ Telecom. The 40 capital index rose 31.75 or 1.5 per cent to 2,183.25.

Telecom added 27 cents at \$29.27 as investors gave a warm welcome to the latest earnings figures plus news of senior management changes. Sentiment was also boosted by a cash bid for an Australian offshoot of Guinness Peat Group which ended 4 cents higher at \$261.89.

BANGKOK retreated further after last Friday's double-figure positive performance and a more

modest rise on Tuesday, with the SET index shedding 12.34 to 338.02.

Traders said the 3.5 per cent plunge was due to profit-taking after last week's advance, pressure from a strong baht and concern about the weakening yen. But trading was light as most Asian markets remained closed for the lunar new year holiday.

Bank and financial issues took the brunt of the fall, with the sector down 6.5 per cent. Krung Thai Bank lost ฿1 to ฿15, while Securities One shed ฿10.70 to ฿16.60 and Thai Farmers Bank dropped ฿2 to ฿150.60.

Property stocks also weakened following reports, later denied, that Quality Houses, which is negotiating a restructuring of its debt, might write down its capital. The share lost ฿1.90 or 26.7 per cent to ฿5.20.

JAKARTA moved lower in minimal volumes. The main market mover was Telekom which dipped Rp50 to Rp2,850. The composite index ended off 0.87 at 397.97 after a session mostly dominated by weak attendance as a result of the holiday.

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